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NATIONAL INCOME ND EXPENDITURE OF THE UNITED KINGDOM 1938 to 1946

Presented to Parliament by the Financial Secretary to the Treasury
by Command of His Majesty
April 1947

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NATIONAL INCOME AND EXPENDITURE OF THE UNITED KINGDOM 1938 TO 1946

I. NATIONAL RESOURCES AND THEIR DISPOSAL

The national income of the United Kingdom is estimated to have been about £4,670 million in 1938, the last year before the war. During the war, owing on the one hand to an increase in the number of persons employed and in overtime working and on the other to rising prices the national income rose steeply, reaching a peak of about £8,350 million in 1944. In 1946 it fell slightly because of a fall in the working population, reductions in hours of work and the dislocations inherent in the transfer of resources from war-time to peace-time uses. The extent of this fall is still uncertain: it has in this Paper been estimated, provisionally, at about £400 million.

The national income is not, however, a measure of the resources currently available for expenditure on consumer goods and services and on additions to domestic capital equipment. During the last eight years this country has been able, by borrowing from abroad and realising its foreign assets, to overspend its income. The extent of this overspending is shown in table 1 below, where the national income, or current product of the British economy, is compared with the country's net expenditure on goods and services. Over the period 1940 to 1945 more than 10 per cent. of the value of goods and services used by this country was financed out of foreign loans or bought at the cost of a sacrifice of assets held overseas. Even in 1946, when external disinvestment was less than half the peak level of 1945, about 5 per cent. of domestic expenditure was out of money borrowed from abroad.

NATIONAL RESOURCES AND THEIR DISPOSAL(1)

TABLE 1 — £ million

	1938	Average 1939 to 1944	1945	1946		1938	Average 1939 to 1944	1945	1946
National income of the United Kingdom ...	4,671	7,027	8,340	7,974	National cost of: Personal consumption	3,668	4,033	4,777	5,420
Borrowing from abroad and sale of assets to foreigners ...	70	645	875	400	Government	765	3,838	4,320	2,261
					Net non-war capital formation at home ...	308	—199	118	693
Total resources available for use at home ...	4,741	7,672	9,215	8,374	Total resources used at home	4,741	7,672	9,215	8,374

(1) For notes on the items of this table see p. 56.

Table 2 illustrates the same point in a slightly different way. It shows the proportion of the national income—the currently produced output of this country—that has been devoted to meeting immediate needs (*i.e.* spent on goods and services currently consumed) and to acquiring additional assets either in this country or overseas. It will be seen that, in fact, in addition to sacrificing foreign assets and accumulating heavy liabilities, this country allowed its domestic capital equipment to run down in each of the war years. 1946 was the first year since 1939 in which any appreciable net addition was made to the country's stock of capital equipment—houses, factories, plant and stocks of goods.

ALLOCATION OF THE NATIONAL INCOME BETWEEN DIFFERENT USES(1)

TABLE 2 — Percentages

	1938	Average 1939 to 1944	1945	1946
Current expenditure				
Personal	78	57	57	68
Government	16	55	52	28
Net additions to assets				
At home	7	−3	1	9
Overseas	−1	−9	−10	−5
National income	100	100	100	100

(1) For notes on the items of this table see p. 56.

The extent to which we still depend on foreign credits to finance our recovery is shown in tables 3 and 4 below. Table 3 sets out the current balance of payments between this country and the outside world in the two years 1938 and 1946. In 1946, despite a recovery of the volume of British exports almost to the 1938 level, our current receipts from abroad were still £400 million short of our payments for imports, relief to devastated countries, the administration of the British zone of Germany and military and other commitments overseas. Table 4 shows the effect which this current deficit had on our holdings of different foreign assets and our liabilities of different types. It will be seen that of our total disinvestment abroad in 1946 £279 million represented drawings on the United States and Canadian lines of credit.

BALANCE OF PAYMENTS(1)

I. Current Account

TABLE 3 — £ million

Payments	1938	1946	Receipts	1938	1946
1. Imports (f.o.b.)—			10. Exports and re-exports	533	890
(a) Food and drink ...	...	555			
(b) Tobacco	...	70	11. Shipping	100	150
(c) Materials	...	360			
(d) Petroleum ...	...	60	12. Interest, profits and		
(e) Other	...	65	dividends	205	150
Total	835	1,110	13. Other (net)	100	72
2. Government expenditure—					
(a) Military (net) ...	...	225			
(b) Relief and rehabilitation	—	97			
(c) Cost of Germany (net)	—	38			
(d) Other (net) ...	...	—60			
Total	16	300			
3. Shipping	80	140			
4. Interest, profits and dividends	30	70			
5. Film remittances (net)	7	17			
6. Tourist payments ...	40	25			
7. Total payments ...	1,008	1,662			
8. Balance on current account	—70	—400			
9. Total payments less deficit	938	1,262	14. Total receipts ...	938	1,262

II. Capital Account(2)

1946

TABLE 4 — £ million

15. Gold and U.S. dollar reserves	61
16. United States and Canadian lines of credit	— 279
17. Other loans to H.M. Government	38
18. Net sterling, etc., liabilities	— 148
19. External capital assets	— 70
20. Subscriptions under Bretton Woods Agreement Act, 1945	33
21. Other	— 35
22. Total external investment (equal to balance on current account)	— 400

(1) For notes to the tables see pp. 56 and 57.

(2) For comparable estimates of external investment in 1945 and for the level of the United Kingdom's external assets and liabilities see Appendix IV.

Information on the changes in our domestic stock of capital is scanty and it is not possible to provide an exhaustive analysis of net capital formation at home. The accuracy of this figure is still dependent on the accuracy of the other elements of national income and expenditure. Net capital formation in 1946 is tentatively put at about £700 million, which would imply a figure of gross capital formation (including replacements of worn-out assets as well as certain maintenance work) of some £1,300 million, compared with £770 million estimated to have been spent in 1938.

This comparison is in itself misleading, however, since it takes no account of the change in price-level. The evidence suggests that the level of gross fixed capital formation was roughly two-thirds of the level immediately before the war. One component of the 1946 total is given in table 5. The total shown in this table does not represent the total value of building work since it excludes both the cost of manufacture of non-traditional houses (which was of the order of £100 million) and building and constructional work done outside the industry.

GROSS OUTPUT OF THE BUILDING AND CIVIL ENGINEERING INDUSTRIES 1946

TABLE 5

	£ million
Housing site preparation	30
Erection of temporary houses	25
Construction of permanent houses(1)	139
War damage repairs to houses	82
Other war damage repairs	15
Factories and industrial premises	46
Storage, warehouses and docks	4
Public utilities	33
Shops and commercial premises	15
Agricultural work	8
Other work(2)	103
Total	500

(1) Including the conversion and adaptation of existing houses.
(2) Including maintenance and repair of houses and new construction and maintenance of other buildings not included elsewhere.

Much more is known about government expenditure on goods and services and personal consumers' expenditure. In 1946, 28 per cent. of the national income was spent by public authorities, compared with 55 per cent. at the peak of the war effort in 1943 and 16 per cent. in 1938.

About 68 per cent. of the national income in 1946 was devoted to providing goods and services for personal consumption, against 57 per cent. in 1945 and 78 per cent. in 1938. These changes are discussed in more detail in Section III.

II. THE COMPOSITION OF THE NATIONAL PRODUCT

An analysis of the contributions of different industries to the national product is unfortunately still not available. Table 6 gives a breakdown for 1945 and 1946 of one component of the national income—the wage bill—according to the branches of activity in which it is earned.

COMPOSITION OF THE NATIONAL WAGE BILL(1)

TABLE 6 — £ million

	1945	1946
Construction and related industries		
Building and civil engineering	155	251
Building materials and equipment	92	123
Other investment goods industries		
Metal manufacture	78	81
Engineering and shipbuilding	390	342
Metal goods	93	97
Motors, cycles and aircraft	216	140
Consumers' goods industries		
Food, drink and tobacco	85	96
Textiles	93	114
Clothing and footwear	91	113
Chemicals	77	61
Other manufacturing industries	179	217
Farming	154	170
Distribution and consumers' services (including domestic service)	298	334
General purpose goods and services		
Coalmining	219	225
Transport, communications and public utilities (including Post Office)	357	430
Public administration	203	226
National wage bill	2,780	3,020

(1) For notes on the items of this table see p. 57.

The division of industries between investment goods and consumer goods and services is inevitably arbitrary; each of the industries for which separate statistics of employment are provided by the Ministry of Labour has been allocated according to the preponderant end-use of its output.

The changes between the two years are due to several factors: changes in total numbers employed, in the proportions of men, women and juveniles in the total and in average earnings. In metal goods, farming and coalmining changes in average earnings (to some extent due to an increase in the proportion of men) were the principal cause of the change in their wage bills. In metal manufacturing, food, drink and tobacco, textiles and " other manufacturing industries " changes in numbers employed and changes in average earnings were of approximately equal importance. In other industries, notably in motors, cycles and aircraft, the main influence was the change in the numbers employed.

It is not possible to use this table as a measure of the relative contributions of different industries to the national product since no data are available on the ratio of wages to the total net output of each industry.

Table 7 gives a breakdown of the net product of all business enterprises between labour incomes and property incomes. The share of wages was in 1946, slightly above its pre-war level; salaries, whose proportionate share declined greatly during the war, have recovered some ground during the last year, largely at the expense of property incomes, which gained during the war and as far as can yet be estimated fell back somewhat during 1946. It must be remembered that the estimates of property income include the earnings of farmers and professional earnings as well as trading profits in the narrower sense.

DISTRIBUTION OF THE NET PRODUCT OF ENTERPRISES(1)

TABLE 7

	1938	1945	1946
	£ million		
Wages	1,535	2,460	2,645
Salaries	940	1,165	1,315
Rent, interest and profits(2)	1,235	2,325	2,290
Net product of enterprises	3,710	5,950	6,250
	Percentages		
Wages	41·4	41·3	42·3
Salaries	25·3	19·6	21·0
Rent, interest and profits(2)	33·3	39·1	36·7
Net product of enterprises	100·0	100·0	100·0

(1) National income, *less* gross income from abroad, wages of domestic servants, income generated in the non-trading services of public authorities and the net rents of dwelling-houses.

(2) Including farmers' profits and professional earnings.

III. PRIVATE INCOME AND OUTLAY

The total of private incomes is not the same as the national income since it includes interest on the national debt, which from the Government's point of view may be thought of as negative income, and also receipts of social security payments and other transfer payments made by public authorities.

Private disposable income is private income after payment of direct taxation. During the war not even the whole of this was available for current spending by individuals, since a part was blocked in the form of income tax and pay credits only cashable at some future date.

Table 8 gives an analysis of private income by types of income and shows the relation of total income before tax to the amount available for current consumption or saving.

TOTAL PRIVATE INCOME BEFORE AND AFTER TAX

TABLE 8 — £ million

	1938	1945	1946
Income from work and property			
Wages...	1,735	2,780	3,020
Salaries	1,110	1,530	1,675
Pay and allowances of the Armed Forces	78	1,255	523
Rents	380	385	386
Profits and interest(1)	1,534	2,810	2,840
Total private income from work and property	4,837	8,760	8,444
Social security benefits and other transfer incomes	270	455	737
Total private income before tax	5,107	9,215	9,181
Less Payments of direct taxes(2)	−516	−1,894	−1,876
Private income after tax	4,591	7,321	7,305

(1) Including farmers' profits, professional earnings and national debt interest.
(2) Excluding income tax repayable as post-war credits.

Changes in the burden of taxation, were, of course, uneven between different types and different ranges of income. Thus, it will be seen from table 9 that, whereas the share of wages in the total labour and property income of civilians (including the undistributed profits of companies) before tax remained more or less constant over the period under review, wage-earners' share of income after tax rose from 39 to 44 per cent.

PRIVATE INCOME FROM WORK AND PROPERTY BEFORE AND AFTER TAX(1)

TABLE 9 — Percentages

	1938	1945	1946
Before taxes on income(2)			
Wages...	37	37	38
Salaries	23	20	21
Interest, profits and rent	40	43	41
Civilian income from work and property	100	100	100
After taxes on income(2)			
Wages...	39	44	44
Salaries	24	22	23
Interest, profits and rent	37	34	33
Civilian income from work and property	100	100	100

(1) The figures in this table exclude the income of the Armed Forces.
(2) The taxes on each of these types of income are set out in detail in table 35 of Appendix VII. The taxes deducted in this table include income tax repayable as post-war credits.

The redistributive effects of direct taxation are measured from a different point of view in table 10. This table shows the shares of personal income that went to persons in different ranges of income before and after deduction of income tax and surtax.

DISTRIBUTION OF PRIVATE INCOME BY RANGES OF INCOME(1)

TABLE 10

Range of income before tax	Number of incomes	Total income before tax	Total income after income tax and surtax(2) at		Proportion of income before tax retained after deduction of taxes at	
			1938–39 rates	1945–46 rates	1938–39 rates	1945–46 rates
	000's	£ million	£ million		Per cent.	
Private income in 1938						
Private income at the disposal of individuals(3) which can be allocated to different ranges :—						
Under £250	...	2,681	2,676	2,616	99·8	97·6
£250–500	1,745	595	578	499	97·1	83·9
£500–1,000	500	350	311	244	88·9	69·7
£1,000–2,000	195	270	224	160	83·0	59·3
£2,000–10,000	97	360	256	170	71·1	47·2
£10,000 and over . ..	8	170	84	35	49·4	20·6
Unallocated private income ..	—	681(4)	575	...	84·4	...
Total private income	—	5,107(4)	4,704	...	92·1	...
Private income in 1945						
Private income at the disposal of individuals(3) which can be allocated to different ranges :—						
Under £250		3,565	3,553	3,449	99·7	96·7
£250–500	5,400	1,895	1,833	1,621	96·7	85·5
£500–1,000	1,650	1,140	1,027	833	90·1	73·1
£1,000–2,000	410	535	439	339	82·1	63·4
£2,000–10,000	124	462	335	220	72·5	47·6
£10,000 and over	8	138	76	26	55·1	18·8
Unallocated private income ...	—	1,480(4)	...	870	...	58·8
Total private income	—	9,215(4)	...	7,358	...	79·8

(1) For notes on this table see p. 59.

(2) The estimates of income in this table relate to calendar years ; the tax-rates used are those that were current in the fiscal years 1938–39 and 1945–46.

(3) A married couple is for income tax purposes counted as one individual.

(4) Including all liabilities for National Defence Contribution and Excess Profits Tax, which are deducted together with income tax in arriving at retained income.

During the war years the proportion of private income spent on current consumption fell for obvious reasons, and saving, including undistributed profits, rose from 7 per cent. of private income in 1938 to 21 per cent. in 1943. In 1945 the proportion saved fell to 15 per cent. and in 1946 the proportion of income saved—8 per cent.—was nearly back to the pre-war ratio. In absolute figures, private saving in 1946 was £721 million compared with £339 million in 1938.

DISPOSAL OF PRIVATE INCOME

TABLE 11 — £ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
Consumers' expenditure at market value	4,252	4,379	4,627	4,828	5,133	5,218	5,474	5,884	6,584
Direct taxes	516	568	763	1,197	1,367	1,714	1,882	1,894	1,876
Private saving (including undistributed profits) ...	339	526	1,040	1,393	1,675	1,815	1,696	1,437	721
Private outlay	5,107	5,473	6,430	7,418	8,175	8,747	9,052	9,215	9,181
	Percentages								
Consumers' expenditure at market value	83	80	72	65	63	60	60	64	72
Direct taxes	10	10	12	16	17	19	21	21	20
Private saving (including undistributed profits) ...	7	10	16	19	20	21	19	15	8
Private outlay	100	100	100	100	100	100	100	100	100

The total proportion of private income that went in taxation was even higher than appears from table 11, because of customs and excise duties and other taxes on outlay.

PROPORTION OF PRIVATE INCOME REQUIRED TO MEET TAXATION

TABLE 12 — £ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
Private income	5,107	5,473	6,430	7,418	8,175	8,747	9,052	9,215	9,181
Direct tax payments(1) ...	516	568	763	1,197	1,367	1,714	1,882	1,894	1,876
Indirect taxes *less* subsidies met out of private income	591	630	709	891	1,016	1,081	1,072	1,110	1,180
Excess of tax liabilities over payments	16	120	286	329	343	127	—6	—91	—156
Total tax liabilities in respect of private income ...	1,123	1,318	1,758	2,417	2,726	2,922	2,948	2,913	2,900
Tax liabilities as a percentage of private income ...	22	24	27	33	33	33	33	32	32

(1) Excluding income tax repayable as post-war credits.

From table 12 it will be seen that tax liabilities represented 22 per cent. of private incomes in 1938, compared with about 33 per cent. from 1942 onwards. This rise was not due wholly to increases in rates of taxation: it was also largely due to the fact that the goods and services, the consumption of which increased the most—beer, tobacco and entertainments—were also the most highly taxed.

It is this factor that explains some of the discrepant movements in personal expenditures on particular consumer goods and services. There is no reason to suppose that, in an economy with complete freedom of choice, the particular distribution of expenditure shown for 1945 and 1946 in table 13 would occur.

PERSONAL EXPENDITURE ON CONSUMERS' GOODS AND SERVICES AT CURRENT MARKET PRICES(1)

TABLE 13 — £ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
1. Food	1,258	1,312	1,370	1,356	1,466	1,405	1,473	1,482	1,650
2. Alcoholic beverages ...	285	310	377	464	542	609	664	688	680
3. Tobacco	177	204	260	317	414	490	506	562	603
4. Rent, rates and water charges	491	510	519	515	509	510	515	526	538
5. Fuel and light	195	197	223	237	240	238	252	266	289
6. Durable household goods	234	223	212	197	174	141	127	172	301
7. Other household goods	54	56	59	57	53	52	55	56	60
8. Clothing	446	458	496	452	487	429	494	517	611
9. Books, newspapers and magazines	64	63	62	68	73	79	85	91	104
10. Private motoring ...	127	114	48	41	23	11	11	37	121
11. Travel	160	152	139	165	195	208	211	239	263
12. Communication services	29	29	32	37	39	48	54	52	54
13. Entertainments	64	61	61	87	118	138	146	158	179
14. Other services	481	475	481	486	450	435	441	496	608
15. Other goods	177	181	187	189	184	190	201	228	304
16. Income in kind of the Armed Forces	17	29	81	135	146	185	199	204	109
17. Total of above items ...	4,259	4,374	4,607	4,803	5,093	5,168	5,434	5,774	6,474
18. Adjustment(2)	−7	5	20	25	40	50	40	110	110
19. Total	4,252	4,379	4,627	4,828	5,133	5,218	5,474	5,884	6,584

(1) For notes on the items of this table and a more detailed breakdown of consumers' expenditure see Appendix III.

(2) It is necessary to make a specific adjustment in order to convert the total in line 17 to a total of purchases out of British income.

The changes in consumer habits that have occurred are obviously the direct result of shortages of particular items. Expenditure on drink and tobacco is now nearly 20 per cent. of total personal expenditure, compared with 11 per cent. before the war. Expenditure on food, in 1938 30 per cent. of the total, was, even after a fairly sharp rise in 1946, still only 25 per cent. of personal expenditure. Clothing and household goods recovered in 1946 part of their old importance in consumers' budgets but still accounted for considerably less than their pre-war proportion of expenditure.

PERSONAL EXPENDITURE ON CONSUMERS' GOODS AND SERVICES REVALUED AT 1938 PRICES(1)

TABLE 14 — £ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
1. Food	1,258	1,280	1,146	1,054	1,109	1,076	1,124	1,124	1,232
2. Alcoholic beverages ...	285	298	284	315	303	304	312	323	320
3. Tobacco	177	182	178	197	206	205	205	226	236
4. Rent, rates and water charges	491	504	507	502	496	497	502	509	514
5. Fuel and light	195	197	201	203	197	188	190	196	215
6. Durable household goods	234	219	164	115	81	67	60	82	148
7. Other household goods	54	55	52	48	42	40	40	40	43
8. Clothing	446	444	372	275	273	247	275	279	330
9. Books, newspapers and magazines	64	63	59	61	63	67	73	77	88
10. Private motoring ...	127	113	38	30	17	8	8	25	71
11. Travel	160	152	129	145	171	183	185	210	226
12. Communication services	29	29	27	27	31	37	42	40	42
13. Entertainments	64	61	53	75	87	88	88	93	102
14. Other services	481	470	434	416	371	350	342	365	424
15. Other goods	177	177	162	131	109	110	113	120	152
16. Income in kind of the Armed Forces... ...	17	28	68	105	112	139	152	155	81
17. Total of above items ...	4,259	4,272	3,874	3,699	3,668	3,606	3,711	3,864	4,224
18. Adjustment(2)	—7	5	17	19	29	35	27	74	72
19. Total	4,252	4,277	3,891	3,718	3,697	3,641	3,738	3,938	4,296

(1) For notes on this table see Appendix III.

(2) See footnote (2) to table 13.

In real terms the changes in relative importance have been less striking. This is largely the result of the differential effects of price-control, indirect taxation and subsidies. Table 14 shows personal expenditure on each of the groups of items given in table 13 revalued at 1938 prices. When the quantities of each item are in this way weighted by 1938 prices instead of by current prices the pattern of expenditure looks very different. Drink, tobacco and entertainments, the three most heavily taxed items, although their consumption has risen absolutely, have a much smaller relative importance. Food, the price of which has been kept low by subsidies, becomes more important.

The changes in each group of expenditure between 1938 and 1945 and during the last year speak for themselves. Consumption of food increased by 10 per cent. between 1945 and 1946, of clothing by 18 per cent., and of durable household goods by 80 per cent. These items are singled out as of especial importance.

In interpreting these changes, it is essential to bear in mind exactly what the figures attempt to measure.

Each series is a measure of total national consumption in each year re-valued at 1938 prices. At a time when both the size and the composition of the population is changing rapidly, the average experience is bound to be different. A considerable part of the rise in household food consumption in 1946, for example, is undoubtedly due to the extra 6 per cent. that demobilization has added to the civilian population. It is partly offset by a fall in the issues in kind to the Armed Forces.

Secondly, because the consumption of no individual person corresponds with the national average, disparate changes in the prices of different goods and services have necessarily had a redistributive effect similar to that of progressive taxation. The changes in the price of luxuries and semi-luxuries have been very different from those of subsidized goods which form a more important part of the budgets of the poorer sections of the community.

Thirdly, although wherever possible an attempt has been made to revalue the goods and services bought at an appropriate 1938 price, there is no doubt that it has been impossible fully to take account of changes in quality, some of which were in an upward direction, but most of which were downward movements. In certain cases, there is a conceptual difficulty in taking any account of quality changes. In the case of what may be considered joint products—*e.g.* a loaf of bread, *plus* its delivery to one's house—the only part of the joint product which lends itself to quantitative measurement is the loaf. The disappearance of delivery services is thus not shown as a decline in consumption although there has obviously been a decline in satisfaction. Similarly, in table 14 a passenger-mile in a crowded slow train is treated as identical with a passenger-mile in a comfortably empty fast train.

In certain other cases, it would in principle be possible to apply a correction for this factor but the poverty of statistical data for 1938 makes it difficult. It is hoped, however, in the future to provide a revised series for food consumption. In the meantime all that can be said is that the series given here is too high, because it fails to make adequate allowance for wartime declines in the quality of meat, preserves, vegetables and certain manufactured foods. This is not to say that a series weighted by nutritional factors would not have shown an even smaller fall during the war years than the one given here.

Fourthly, the figures do not claim to measure consumer satisfactions and make no allowance for restrictions in consumers' choice. As has been mentioned above, some of the items which have shown rises have obviously been inadequate substitutes for other items in shorter supply.

This last qualification is particularly relevant to the interpretation of the movement of the total shown for each year. The last line of the table purports to show what the goods and services actually consumed in each year would have cost in 1938. The quantities of each item actually bought in any particular year have been revalued at their 1938 prices and the resulting products have been added in order to arrive at a total. Thus, the fact that the 1946 aggregate is rather higher than the 1938 figure does not, in itself, mean that standards of consumption were by 1946 back at their pre-war level. It means simply that the particular collection of goods and services actually bought in 1946 would, if bought in 1938, have cost rather more than the goods and services that consumers in fact preferred to buy in that year.

TABLE 15

	1938	1939	1940	1941	1942	1943	1944	1945	1946
1. Rent of land and buildings	380	388	386	385	384	384	384	385	386
2. Interest and profits, including farming profits and professional earnings ...	1,368	1,540	1,885	2,190	2,410	2,525	2,470	2,390	2,370
3. Salaries	1,110	1,150	1,215	1,340	1,370	1,420	1,465	1,530	1,675
4. Wages	1,735	1,835	2,108	2,404	2,660	2,805	2,840	2,780	3,020
5. Pay and allowances (in cash and kind) of serving members of the Armed Forces	78	124	386	622	840	1,037	1,207	1,255	523
6. National income ...	4,671	5,037	5,980	6,941	7,664	8,171	8,366	8,340	7,974

For notes on the items of this table see pp. 24 to 27.

TABLES

INCOME AND EXPENDITURE

£ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
Consumption									
7. Personal expenditure on consumers' goods and services	4,252	4,379	4,627	4,828	5,133	5,218	5,474	5,884	6,584
8. Government current expenditure on goods and services	789	1,286	3,213	4,349	4,722	5,254	5,249	4,450	2,329
Additions to assets									
9. Net capital formation at home	320	(299)	(–212)	(–314)	(–298)	(–302)	(–403)	(121)	(714)
10. Net lending abroad and purchase of assets and financial claims from overseas...	–70	–250	–804	–816	–663	–680	–659	–875	–400
11. Net national expenditure at market value	5,291	5,714	6,824	8,047	8,894	9,490	9,661	9,580	9,227
12. Subsidies...	36	46	95	161	187	200	237	272	360
13. *less* Indirect taxes ...	–656	–723	–939	–1,267	–1,417	–1,519	–1,532	–1,512	–1,613
14. Net national expenditure	4,671	5,037	5,980	6,941	7,664	8,171	8,366	8,340	7,974

Personal

TABLE 16

	1938	1939	1940	1941	1942	1943	1944	1945	1946
Income from work and property									
15. Rent, interest and profits	1,655	1,734	1,843	1,857	2,049	2,188	2,283	2,380	2,567
16. Wages and salaries ...	2,845	2,985	3,323	3,744	4,030	4,225	4,305	4,310	4,695
17. Pay and allowances of the Armed Forces	78	124	386	622	840	1,037	1,207	1,255	523
Transfer incomes									
18. Social security payments	229	215	206	197	210	225	246	259	333
19. Miscellaneous transfer incomes	41	46	57	79	84	92	98	196	404
20. Personal income before tax	4,848	5,104	5,815	6,499	7,213	7,767	8,139	8,400	8,522

Other Private

30. Other private income before tax	259	369	615	919	962	980	913	815	659
31. Other private income before tax	259	369	615	919	962	980	913	815	659

Private

37. Private income before tax	5,107	5,473	6,430	7,418	8,175	8,747	9,052	9,215	9,181

For notes on the items of this table see pp. 27 to 29.

INCOME AND OUTLAY

Income

£ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
Consumption									
21. National cost of consumers' goods and services	3,668	3,755	3,907	3,920	4,102	4,124	4,390	4,777	5,420
22. Indirect taxes *less* subsidies	584	624	720	908	1,031	1,094	1,084	1,107	1,164
Direct tax payments									
23. Income tax and surtax	309	335	441	574	559	782	922	980	1,069
24. Death duties	78	77	79	88	94	97	107	119	142
25. Employees' national insurance contributions ...	55	56	61	68	72	71	70	69	88
26. Miscellaneous	–3	–3	4	30	29	25	24	20	–7
Saving									
27. Excess of direct tax liabilities over payments...	4	34	39	42	194	91	45	10	–21
28. Personal saving	(153)	(226)	(564)	(869)	(1132)	(1483)	(1497)	(1318)	(667)
29. Personal outlay	4,848	5,104	5,815	6,499	7,213	7,767	8,139	8,400	8,522

Income

Direct tax payments									
32. Excess Profits and Profits Tax payments	15	28	68	234	344	486	517	475	391
33. Other direct tax payments	62	75	110	203	269	253	242	231	193
Saving									
34. Excess of direct tax liabilities over payments...	12	86	247	287	149	36	–51	–101	–135
35. Undistributed profits ...	170	180	190	195	200	205	205	210	210
36. Other private outlay ...	259	369	615	919	962	980	913	815	659

Income

38. Private outlay	5,107	5,473	6,430	7,418	8,175	8,747	9,052	9,215	9,181

REVENUE ACCOUNT OF

TABLE 17

	1938	1939	1940	1941	1942	1943	1944	1945	1946
Taxes									
39. Direct taxes	516	568	763	1,197	1,367	1,714	1,882	1,894	1,876
40. Indirect taxes	656	723	939	1,267	1,417	1,519	1,532	1,512	1,613
41. Total tax revenue ...	1,172	1,291	1,702	2,464	2,784	3,233	3,414	3,406	3,489
Income from property									
42. Trading profits, interest and rent	57	56	55	70	111	127	103	72	60
43. *less* National debt interest	–223	–231	–242	–271	–328	–386	–445	–492	–530
44. Revenue	1,006	1,116	1,515	2,263	2,567	2,974	3,072	2,986	3,019

For notes on the items of this table see pp. 29 and 30.

COMBINED CAPITAL

TABLE 18

	1938	1939	1940	1941	1942	1943	1944	1945	1946
Saving									
53. Private saving	323	406	754	1,064	1,332	1,688	1,702	1,528	877
54. Excess of tax liabilities over payments	16	120	286	329	343	127	–6	–91	–156
55. Saving of public authorities	–89	–477	–2,093	–2,768	–2,844	–2,980	–2,871	–2,358	–705
Provision for depreciation and maintenance									
56. Sums set aside	450	460	480	490	500	500	500	510	600
Transfers from public authorities to private capital account									
57. Compensation received in respect of war damage claims	—	—	37	245	208	183	113	167	131
58. Excess Profits Tax post-war refunds	—	—	—	—	—	—	—	—	167
59. Saving and other sums set aside	700	509	–536	–640	–461	–482	–562	–244	914

For notes on the items of this table see pp. 30 and 31.

PUBLIC AUTHORITIES

£ millior

	1938	1939	1940	1941	1942	1943	1944	1945	1946
45. Current expenditure on goods and services ...	789	1,286	3,213	4,349	4,722	5,254	5,249	4,450	2,329
46. Subsidies...	36	46	95	161	187	200	237	272	360
Transfers to private current accounts									
47. Social security payments	229	215	206	197	210	225	246	259	333
48. Miscellaneous transfers	41	46	57	79	84	92	98	196	404
Transfers to private capital accounts									
49. Payments in respect of war damage claims ...	—	—	37	245	208	183	113	167	131
50. Excess Profits Tax post-war refunds	—	—	—	—	—	—	—	—	167
Saving									
51. Surplus on current account	–89	–477	–2,093	–2,768	–2,844	–2,980	–2,871	–2,358	–705
52. Current outlay ...	1,006	1,116	1,515	2,263	2,567	2,974	3,072	2,986	3,019

ACCOUNT

£ millio

	1938	1939	1940	1941	1942	1943	1944	1945	1946
60. Gross capital formation at home	770	759	268	176	202	198	97	631	1,314
61. Net lending abroad and purchase of assets and financial claims from overseas...	–70	–250	–804	–816	–663	–680	–659	–875	–400
62. Gross capital formation	700	509	–536	–640	–461	–482	–562	–244	914

APPENDIX I

NOTES ON THE MAIN TABLES

Table 15

1. This item represents the income from the ownership of lands, houses, etc., as assessed for income tax under Schedule A, after allowance has been made for maintenance and repair. Incomes from these sources below the effective income tax exemption limit are included, as also are those received by non-profit-making bodies, e.g. charities, colleges, etc. Premises occupied by their owners are treated on the same basis as rented premises. Rents paid by occupiers in excess of Schedule A values are excluded from this item, since they cannot be estimated. So far as they attract income tax under Schedule D they have been included in profits.

2. Aggregate profits here are net, after current business losses have been deducted. This item excludes interest on the national debt and also income due to foreigners after deduction of income tax, but includes miscellaneous government income such as trading profits, receipts under the railway agreement, certain receipts from abroad and central government taxes paid by foreigners. It also includes profit and interest not brought into assessment, including income in kind and the amounts received by persons below the income tax exemption limit or by non-profit-making bodies, and incomes, whether or not below the income tax exemption limit, accruing to persons working on their own account. In addition to profits and interest this item includes rents paid in excess of Schedule A values, so far as they attract income tax under Schedule D.

The corresponding item in Cmd. 6784 included the trading profit of the Post Office, which has here been treated as an indirect tax and not as a business profit. An increase in wear and tear allowances granted by the Inland Revenue reduced the figure of profits in 1946.

3. Aggregate salaries include: (*a*) the whole of the earnings of shop assistants, (*b*) allowances of salary earners not brought under assessment to income tax.

4. This item includes an allowance for the income in kind (food, lodging, etc.) of, *e.g.* domestic servants, miners and farm workers. The estimate of personal expenditure on consumption at market prices (item 7) includes a similar allowance.

5. This item includes: (*a*) the pay and cash allowances of, and the value of issues of food and clothing to, members of H.M. Forces and Auxiliary Services, other than those on release leave, (*b*) the pensions and retired pay of former members of the Armed Forces other than pensions awarded for death or disability attributable to war service and (*c*) the sums accruing during their service to the credit of members of the Armed Forces and subsequently received as a post-war pay credit. This last component was treated in Cmd. 6784 as a transfer payment made at the time the sums were freed. War pensions and payments and issues of civilian clothing to members of the Armed Forces on release leave are treated as a transfer income and form part of item 19 of table 16.

6. This item is the sum of items 1 to 5 and is an estimate of the incomes received by factors of production in, or only temporarily absent from, the United Kingdom in the course of producing the current output of goods and services of all kinds. These incomes are before tax, since all taxes, direct and indirect, falling on them, whether paid directly by individuals (including non-profit-making bodies) or through businesses or public authorities, will be paid

out of them. The item excludes that part of gross receipts which is allowed in the calculation for tax purposes of net rent and profit in respect of the maintenance and repair or replacement of all existing capital equipment.

The estimates of labour income given in items 3, 4 and 5 do not include employers' contributions to national insurance (unemployment, health and pensions insurance). These payments are, however, included in the income figures for some countries and are therefore shown separately in item 43 of table 21.

7. This item shows the money value of all consumers' goods and services either bought by individuals and non-profit-making bodies or received by them as income in kind. The figures shown here are therefore at prices which include those indirect taxes (taxes on outlay in a wide sense, including local rates and employers' contributions to national insurance and war risks insurance premiums) which appear in the market value of these goods and services. They exclude costs which, being met by government subsidies, do not enter into market values.

8. This item excludes expenditure by public authorities which does not arise from a direct demand for goods and services. Thus it excludes (i) transfer payments and (ii) loan repayments, payments to sinking funds, etc., by the central government. It excludes, moreover, the issue to the Land Fund in 1946 of £50 million; when the Fund acquires any land its expenditure will form part of public capital formation. Loan repayments and payments to sinking funds by local authorities on rate fund account are included in lieu of depreciation allowances as part of the current cost of providing the services. Subsidies, which are shown in item 12 below, are excluded, as are operating expenses incurred in the provision of services which are sold and not made freely available. Net non-war capital expenditure is excluded from this item and is included in item 9.

This item differs from the corresponding item of Cmd. 6784 in one important respect: it is no longer a figure of cash payments but approximates more closely to a measure of the work currently performed on government account. It therefore includes the estimated annual increase in the central government's liabilities to industry, which was shown as a separate item in table 20 of Cmd. 6784. (This estimate is now shown separately in the more detailed tables of Appendix II: item 24 of table 19.)

With the exception noted below, Lend-Lease assistance and, in 1942, expenditure equivalent to the Canadian contribution are excluded from this item. Thus, this series is not a consistent measure of the value of the total amount of goods and services currently at the disposal of public authorities since it includes resources obtained by borrowing from, or sale of assets and financial claims to, countries abroad, but not those obtained under Lend-Lease or as a result of the Canadian contribution.

The 1945 figure includes an amount of £161 million ($650 million) to cover the final settlement with the Government of the United States of Lend-Lease, Reciprocal Aid, surplus war property and other claims although since no cash payment has been made this expenditure is not included in Exchequer issues.

9. This item is composed of (*a*) gross expenditure, both public and private, on fixed capital and its upkeep, *i.e.*, new additions, replacements and repairs (including war damage repairs), *less* (*b*) maintenance expenditure and depreciation allowances deducted from gross revenue in arriving at the figures of net rent and profits shown in items 1 and 2, *less* (*c*) increases

in assurance reserves to meet claims by business insurers, *less* (*d*) receipts in respect of business insurance claims for damage (other than war damage) to fixed capital, *less* (*e*) expenditure on the maintenance of the property of government non-trading undertakings, *less* (*f*) sums repaid to lenders and transferred to sinking funds by local authorities on rate-fund account, *plus* (*g*) the increase in stocks (including replacements of war losses) as valued for the calculation of profits in item 2. It is equal to item 60 of table 18 *less* item 56.

It has been impossible to make a direct estimate of all the constituents of this item for the war years. The figures in brackets have been obtained by subtracting the sum of items 7, 8, 10, 12 and 13 from item 6 and are therefore dependent on the accuracy of those estimates.

10. This item is an estimate of the net increase (or, since in fact in each year it is negative, decrease) in the external assets of the United Kingdom. The amounts shown for the war years are believed to understate the extent to which the country's international position has deteriorated.

This item is equal to the United Kingdom balance of payments on current account. This balance represents the excess of payments over receipts on current account and is required here since receipts for exports and similar services which give rise to income in this country do not appear elsewhere in expenditure, whilst payments for imports and similar services which do not give rise to such income appear in items 7 to 9 and have, therefore, to be deducted.

Lend-Lease has entered into this item, as into item 8, in only one year: the 1945 figure includes the liability of £161 million to the Government of the United States to cover the net sum due for the settlement of Lend-Lease and reciprocal aid, etc., mentioned in the note to item 8.

11. This item (the sum of items 7 to 10) represents the total expenditure at market value by the United Kingdom on current consumption and on additions to assets. It differs from the national income because it includes certain payments (indirect taxes) not going to factors of production and excludes others (subsidies) which do remunerate factors of production.

12. This item is included here since it represents payments in respect of costs not appearing in the market value of goods and services. It is restricted to the following classes of payments made by the central government towards the cost of goods and services bought by the public: (i) agricultural subsidies such as the beet sugar subsidy, milk subsidy, wheat deficiency payments and grants in respect of fertilizers, grassland ploughing and field drainage, (ii) acreage payments, (iii) losses incurred on the commercial accounts of the Ministry of Food and the Ministry of War Transport, (iv) subsidies in respect of coal paid by the Ministry of Fuel and Power, (v) subsidies in respect of utility cloth, (vi) certain subsidies in respect of raw materials and fertilizers met by the Ministry of Supply, and (vii) housing subsidies.

The corresponding item in Cmd. 6784 excluded housing subsidies, which were treated as government expenditure on goods and services.

13. This item consists of taxes on outlay. These taxes require to be deducted from item 11 since they enter into the market value of goods and services but do not remunerate any factor of production, *i.e.*, do not form part of the national income.

The item includes (i) customs and excise duties, (ii) motor vehicle duties, (iii) stamp duties, (iv) the trading profit of the Post Office, (v) wireless licence receipts, (vi) local rates, (vii) compulsory contributions of employers to the national health and unemployment insurance and contributory pensions schemes and (viii) premiums paid under the commodities and marine war risks insurance schemes. Not all these components were previously treated as indirect taxes, so that this item is wider in scope than the corresponding items (15, 16 and 17) in table 20 of Cmd. 6784.

An estimate of the amount of taxes entering into the value of exports and therefore ultimately paid by foreigners has been deducted since these receipts are now treated as a part of the national income.

14. This item is the sum of items 11 to 13 and is an estimate of expenditure on the factors of production in, or only temporarily absent from the United Kingdom. It is, therefore, by definition equal to item 6.

Table 16

15. This item is composed of items 1 and 2 of table 15, *plus* national debt interest and the increase in interest accrued on National Savings Certificates (*i.e. less* item 43 of table 17), *less* private income not accruing to persons (item 31), *less* trading profits, interest and rents received by public authorities (item 42 of table 17).

16. The sum of items 3 and 4 of table 15.

17. The same as item 5 of table 15.

18. Old age pensions, contributory pensions, supplementary pensions, family allowances; the Ministry of Food's contributions towards the cost of food and vitamin products supplied under the National Milk Scheme and the milk-in-schools and vitamin schemes; cash benefits under the national health insurance scheme; unemployment insurance benefits; unemployment allowances and outdoor relief paid by local authorities. These payments are shown separately as items 26, 49, 50, 51 and 60 of Appendix II.

19. This item consists of war gratuities, the pay and cash allowances of members of the armed forces on release leave and the cost of the civilian clothing issued to them on their release, cash payments in respect of war pensions and service grants, billeting allowances, fireguards' subsistence allowances, travelling and lodging allowances of transferred workers, trainees' wages and lodging allowances, State scholarships and maintenance allowances to students. A breakdown of this item is given in item 27 of Appendix II.

20. This item is the sum of items 15 to 19 and shows the total of disposable income received by persons (including non-profit-making bodies).

21. This item is equal to item 7 of table 15, *less* item 22.

22. That part of the excess of indirect taxes (item 13 of table 15) over subsidies (item 12 of table 15) which falls on consumers' expenditure.

23. This item includes payments of income tax and surtax on personal income other than the sums due for repayment as post-war credits, which have been treated as a loan to the central government and therefore appear now in personal saving (item 28).

24. The corresponding item in Cmd. 6784 (item 34) included, in addition to death duties, stamp duties on the transfer of property, which have here been treated as an indirect tax and therefore appear, to the extent that they are paid out of personal income, in item 22 above.

25. The contributions of employees and voluntary contributors to the national insurance schemes (health, unemployment and pensions).

26. War damage contributions and premiums and other minor indirect taxes, *less* direct taxes estimated to be paid by foreigners.

27. This item shows the excess of the liability for direct taxes accruing on current income over current direct tax payments. It relates particularly to income tax on interest and profits and to surtax since in these cases liabilities in respect of current incomes (payable in the future) differ considerably from current payments at times when money incomes or rates of taxation are changing. Income tax accruals in respect of income assessed under Schedule E (wages and salaries) have been omitted throughout the period. This has been done to avoid the discontinuity which would otherwise have been introduced into the figures as a result of the introduction of the " pay as you earn " scheme in 1944.

Tax liabilities have been calculated at current rates of taxation, except in 1945 when account was taken of the reduction in tax-rates, to take effect in April, 1946, which was announced in the autumn Budget of 1945.

28. This item represents the excess of personal income over outgoings on consumers' goods and services and liability for taxes and compulsory contributions. It has been obtained throughout by subtracting the sum of items 21 to 27 from item 20 and therefore depends on the accuracy of those items.

This item differs from the corresponding item in Cmd. 6784 since income tax repayable as post-war credits has been treated here as saving and not as a tax payment.

29. This item is the sum of items 21 to 28, which show the various forms of personal outlay. Current income may be (*a*) spent on consumers' goods and services, (*b*) paid away in taxes and the like, (*c*) set temporarily aside against increase liabilities to tax or (*d*) added to past savings. Since this list is exhaustive the item is by definition equal to item 20.

30. This item is equal to that part of the national income (item 6 of table 15) which is neither paid out to persons nor accrues to public authorities as net income from property (items 42 and 43 of table 17).

32. The total payments of National Defence Contribution, Excess Profits Tax and Profits Tax, before deduction of post-war refunds of Excess Profits Tax.

33. This item is composed of other direct taxes such as income tax and war damage contributions and premiums met out of other private income. The 1946 figure excludes income tax on post-war refunds of Excess Profits Tax, which have been brought into the capital account (item 58 of table 18) after deduction of income tax. Together with items 23, 24, 25, 26 and 32 it is equal to item 39 of table 17.

34. This item shows the excess of the liability for direct taxes accruing on current undistributed income over the current payments of these taxes. Tax liabilities were calculated as explained in the note to item 27.

35. An estimate of the net undistributed profits of companies. Post-war refunds of Excess Profits Tax have been treated as a capital receipt (item 58 of table 18) and therefore do not enter into this item.

36. The sum of items 32 to 35 and by definition equal to item 31.

37. The sum of items 20 and 31; equal to item 6 of table 15, *plus* items 47 and 48 of table 17, *less* items 42 and 43 of table 17.

38. The sum of items 29 and 36.

Table 17

This table summarises the income and current expenditure of public authorities in the United Kingdom. Transfers between one public authority and another, such as Exchequer grants to local authorities and similar contributions to the national insurance funds are excluded from both sides of the account. In the separate accounts for the central government, the local authorities and the national insurance funds shown in Appendix III each transfer is shown as a payment by one authority and a receipt by another.

Expenditure on goods and services is here net in the sense that it is after deduction of goods and services sold by public authorities to the general public, which are included either in personal expenditure on consumption or in private net capital formation at home.

39. This item includes all taxes on income and capital (other than the small amount paid by foreigners) together with gifts, fines and other similar receipts. It is made up of items 1 to 7 and 42 of Appendix II; the notes on these items contain full definitions. It is equal to the sum of items 23, 24, 25, 26, 32 and 33 of table 16.

The corresponding item in Cmd. 6784 (item 49 of table 22) included certain taxes which have in this Paper been treated as indirect taxes and included in item 40. It included, moreover, income tax repayable as post-war credits, which has here been treated as a loan to the government and not as a tax.

40. This item includes all taxes on outlay (other than the amount estimated to enter into the value of British exports, which has been treated as government income from property). It thus differs from the corresponding item in Cmd. 6784 (item 52 of table 22), which omitted certain taxes here treated as indirect taxes: wireless licences, stamp duties on the transfer of property and motor vehicle duties paid out of personal income. This item, moreover, includes the Post Office trading profit, which was previously treated as government income from property. This last change in practice has been made on the ground that monopoly gain is more akin to an indirect tax than to the income of a factor of production.

The item is made up of items 8 to 17, 43 and 54 of Appendix II; more detailed definitions are given in the notes to those items. It is equal to item 13 of table 15.

41. The sum of items 39 and 40; equal to the sum of items 18, 42, 43 and 54 of Appendix II.

42. This item consists of the trading profits of government departments and local authorities which carry on business in competition with private enterprise. It differs from the corresponding item in Cmd. 6784 for three reasons: (i) it excludes the trading surplus of the Post Office for the reason given in the note to item 40; (ii) it includes the investment income of the national insurance funds which, in so far as it was derived from holdings of the National Debt, was previously treated as an inter-governmental transfer; (iii) it includes certain receipts (*e.g.* under the Bank of England Act, 1946), used to make payments of interest outside the permanent debt charge; (iv) in the years 1944 to 1946 it includes as a negative element the loss made by the Exchequer as a result of illicit trading by British troops and other Government employees abroad. The item is made up of items 19, 20, 44 and 55 of Appendix II.

43. Total interest on the national debt, whether part of the permanent debt charge or met out of specific receipts such as receipts under the Bank of England Act, 1946, together with the increase in interest accrued on National Savings Certificates. National debt interest was in Cmd. 6784 treated as a transfer payment. In this Paper it has been treated as negative government income. To the recipients of the income, whether they are private individuals and companies, or public authorities (*e.g.* national insurance funds), it is, of course positive income. The addition of private income from work and property (items 15, 16, 17 and 30 of table 16) to government income from property (items 42 and 43) thus gives the total national income (item 6 of table 15).

44. The sum of items 41 to 43; *i.e.* equal to tax revenue and miscellaneous trading profits, etc., of public authorities, *less* national debt interest.

45. This item is made up of items 23, 24, 47, 48 and 58 of Appendix II.

46. This item is identical with item 12 of table 15; it is made up of items 25 and 59 of Appendix II.

47. This item is equal to item 18 of table 16; it is made up of items 26, 49, 50, 51 and 60 of Appendix II. The notes to these items give more detailed definitions.

48. This item is equal to item 19 of table 16; a breakdown of the figure is given in item 27 of Appendix II, the note to which gives a more detailed definition.

49. Payments in respect of claims under the commodities and marine war risks insurance schemes and the War Damage Act.

50. These refunds are shown after deduction of income tax.

51. This item measures the difference between the revenue of public authorities and their expenditure other than on net capital formation; it is made up of items 32, 52 and 61 of Appendix II and is identical with item 53 of table 18.

52. The sum of items 45 to 51; equal to items 33, 53 and 62 of Appendix II, *less* items 30 and 31 of Appendix II.

Table 18

53. The sum of items 28 and 35 of table 16.

54. The sum of items 27 and 34 of table 16.

55. The same as item 51 of table 17.

56. These allowances are treated here in a narrow sense in that they exclude, except in the case of buildings, highways and bridges, the greater part of outlays for current repair work.

So far as the private sector is concerned, the estimates are based mainly on the allowances, as computed for income tax purposes, which were due each year, *viz.*, allowances for repairs, etc. under Schedule A and wear and tear and obsolescence allowances under Schedule D. In fact, when firms are assessed under both Schedules A and D the Schedule A allowances are non-operative and the deduction allowed for repairs before tax is chargeable is the actual amount spent.

Because gross capital formation has, except in 1938, been estimated by adding the sums allowed for depreciation and maintenance to the figure of net capital formation obtained as a residual in table 15, the conventional treatment of depreciation allowances adopted in this Paper has affected gross capital formation (item 60) to exactly the same extent as this item; a change in practice would alter this item and item 60 but would leave item 9, net capital formation, unchanged.

An addition has been made to income tax allowances to cover the amount received by business insurers in respect of claims for damage (other than war damage) to fixed capital goods and the increase in assurance reserves to meet business claims of all kinds. Expenditure on making good such damage appears in gross capital formation; by the practice here adopted provision for insurable loss is treated identically with provision to meet normal wear and tear.

In the case of local authorities sums repaid to lenders and transferred to sinking funds are treated as the equivalent of depreciation allowances, as explained in the note to item 9. Expenditure by public authorities on maintaining highways and bridges is included, as is also Post Office capital expenditure charged to Vote.

Total depreciation allowances increased sharply in 1946. Firms which have recently replaced old plant with a low written-down value or even fully depreciated, by new plant bought at higher prices would in any case have been entitled to considerably increased tax-free wear and tear allowances, since these allowances are calculated on the original cost of assets. The introduction in 1946 of special initial allowances on all new plant installed contributed further to the increase.

For the same reason, of course, profits, which are calculated after deduction of allowable expenses, were lower in 1946 than they otherwise would have been.

57. The same as item 49 of table 17.

58. The same as item 50 of table 17.

60. Composed of total expenditure on fixed capital works, etc., together with the change in the value of stocks and work in progress implied in the calculation of profits. As explained in the note to item 56 this item is treated here in a narrow sense since, except in the case of buildings, highways and bridges, the greater part of outlays on repair work is excluded.

61. The same as item 10 of table 15.

62. The sum of items 60 and 61.

REVENUE, BORROWING AND CENTRAL

TABLE 19

Revenue

	1938	1939	1940	1941	1942	1943	1944	1945	1946
Direct taxes									
1. Income tax	312	346	473	654	723	940	1,074	1,128	1,187
2. Surtax	59	65	78	77	73	74	74	73	75
3. National Defence Contribution and Profits Tax	15	28	24	23	27	33	35	35	35
4. Excess Profits Tax ...	—	—	44	211	317	453	482	440	356
5. Death duties	78	77	79	88	94	97	107	119	142
6. War damage premiums	—	—	—	75	66	54	49	39	2
7. Miscellaneous	–3	–4	4	1	–5	–8	–9	–9	–9
Indirect taxes									
8. Customs and excise duties on drink ...	107	116	175	218	267	337	360	375	364
9. Customs and excise duties on tobacco ...	84	108	159	208	306	371	385	408	438
10. Purchase tax	—	—	—	97	113	93	95	109	161
11. Entertainments duty ...	8	8	8	15	27	40	46	50	55
12. Other customs and excise duties	138	150	132	138	139	151	202	150	147
13. Motor vehicle duties ...	35	34	37	38	32	27	28	35	45
14. Stamp duties	21	19	14	14	15	17	17	23	35
15. Post Office surplus ...	11	8	19	25	31	36	39	37	36
16 War risks insurance premiums	—	14	124	239	199	152	58	14	5
17. Miscellaneous	–13	–12	–15	–14	–8	–4	–1	–3	–19
18. Total tax revenue ...	852	957	1,355	2,107	2,416	2,863	3,041	3,023	3,055
Income from property									
19. Receipts under the railway agreement ...	—	—	—	10	54	66	49	33	–20
20. Miscellaneous	41	42	42	45	40	40	33	12	46
21. *less* National debt interest	–223	–231	–242	–271	–328	–386	–445	–492	–530
22. Revenue	670	768	1,155	1,891	2,182	2,583	2,678	2,576	2,551

For notes on the items of this table see pp. 38 to 40.

DIX II

EXPENDITURE OF PUBLIC AUTHORITIES

GOVERNMENT

Account

£ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
Current expenditure on goods and services									
23. Cash payments	440	865	2,618	3,675	4,161	4,759	4,788	4,256	1,982
24. Increase in government liabilities to industry	—	25	150	175	75	25	—	—275	—125
25. Subsidies	14	23	72	138	164	177	215	250	337
Transfers to private current account									
26. Social security payments:									
a. Non-contributory pensions	47	48	58	75	86	98	110	117	133
b. Family allowances...	—	—	—	—	—	—	—	—	19
c. Milk and vitamin products	—	—	7	13	17	19	21	22	28
d. Unemployment allowances	35	30	17	6	3	2	2	2	3
27. Other transfers :									
a. War gratuities ...	—	—	—	—	—	—	—	56	163
b. Pay and allowances of members of the Armed Forces on release leave	—	—	—	—	—	—	—	52	147
c. War pensions and service grants ...	38	37	39	45	55	63	72	77	82
d. Billeting allowances	—	6	12	19	9	5	7	3	—
e. Miscellaneous ...	3	3	6	15	20	24	19	8	12
Transfers to private capital account									
28. Payments in respect of war damage claims ...	—	—	37	245	208	183	113	167	131
29. Excess Profits Tax post-war refunds	—	—	—	—	—	—	—	—	167
Transfers to other public authorities									
30. Grants to local authorities	169	208	257	313	299	276	259	251	233
31. Exchequer contributions to national insurance funds	47	49	51	51	57	58	59	62	60
Saving									
32. Surplus on current account	–123	–526	–2,169	–2,879	–2,972	–3,106	–2,987	–2,472	–821
33. Current expenditure less deficit	670	768	1,155	1,891	2,182	2,583	2,678	2,576	2,551

Capital

TABLE 20

	1938	1939	1940	1941	1942	1943	1944	1945	1946
34. Surplus on current account...	–123	–526	–2,169	–2,879	–2,972	–3,106	–2,987	–2,472	–821
35. Maintenance provision...	10	10	8	7	5	5	5	8	10
36. Deficit	147	551	2,187	2,890	2,983	3,116	2,995	2,470	825
37. Receipts available for capital formation ...	34	35	26	18	16	15	13	6	14

For notes on the items of this table see p. 40.

Revenue

TABLE 21

	1938	1939	1940	1941	1942	1943	1944	1945	1946
42. Direct taxes	55	56	61	68	72	71	70	69	88
43. Indirect taxes	54	55	58	65	72	72	71	69	87
44. Income from property...	9	9	9	10	11	14	15	17	20
45. Grants from the central government	47	49	51	51	57	58	59	62	60
46. Revenue	165	169	179	194	212	215	215	217	255

For notes on the items of this table see p. 40.

GOVERNMENT

Account

£ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
38. Expenditure on new assets and the maintenance of existing assets	34	35	26	18	16	15	13	48	135
39. Purchases of existing assets from private ownership	—	—	—	—	—	—	—	—	58
40. *less* Sales of surplus stores	—	—	—	—	—	—	—	–42	–179
41. Gross capital formation at home	34	35	26	18	16	15	13	6	14

INSURANCE FUNDS

Account

£ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
Current expenditure on goods and services									
47. Medical benefit	12	12	12	12	13	14	15	15	17
48. Expenses of administration	14	14	13	13	12	11	11	13	14
Transfers to private current account									
49. Contributory pensions...	47	48	53	58	60	61	65	63	78
50. Sickness benefit ...	22	23	23	21	27	31	32	32	32
51. Unemployment benefit	55	43	29	10	5	3	4	9	26
Saving									
52. Surplus on current account	15	29	49	80	95	95	88	85	88
53. Current expenditure and surplus	165	169	179	194	212	215	215	217	255

Revenue

TABLE 22

	1938	1939	1940	1941	1942	1943	1944	1945	1946
54. Indirect taxes	211	223	228	224	224	227	232	245	259
55. Income from property...	7	5	4	5	6	7	6	10	14
56. Grants from the central government	169	208	257	313	299	276	259	251	233
57. Revenue...	387	436	489	542	529	510	497	506	506

Capital

TABLE 23

	1938	1939	1940	1941	1942	1943	1944	1945	1946
63. Surplus on current account...	19	20	27	31	33	31	28	29	28
64. Depreciation allowances	100	100	100	95	95	100	100	105	110
65. Net borrowing... ...	87	55	–14	–51	–62	–63	–58	–35	107
66. Receipts available for capital formation ...	206	175	113	75	66	68	70	99	245

For notes on the items in tables 22 and 23 see pp. 40 and 41.

AUTHORITIES

Account

£ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
58. Current expenditure on goods and services ...	323	370	420	474	461	445	435	441	441
59. Housing subsidies ...	22	23	23	23	23	23	22	22	23
Transfers to private current account									
60. Outdoor relief	23	23	19	14	12	11	12	14	14
Saving									
61. Surplus on current account...	19	20	27	31	33	31	28	29	28
62. Current expenditure and surplus	387	436	489	542	529	510	497	506	506

Account

£ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
67. Gross capital formation	206	175	113	75	66	68	70	99	245
68. Gross capital formation	206	175	113	75	66	68	70	99	245

THE FINANCE OF THE CENTRAL GOVERNMENT DEFICIT

TABLE 24 — £ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
69. Unemployment Fund ...	–1	7	24	64	74	74	72	69	68
70. National Health Funds...	—	—	9	8	12	9	5	3	1
71. Local Loans Fund ...	–3	–3	2	6	7	8	8	4	–53
72. Other extra-budgetary receipts etc.	264	209	614	179	6	–130	–87	–391	–102
73. Reconstruction Finance Corporation Loan ...	—	—	—	87	4	–7	–11	–10	–9
74. Canadian Government interest free loan ...	—	—	—	—	157	–4	–13	–14	–21
75. Credit granted by United States Government in connection with Lend-Lease settlement ...	—	—	—	—	—	—	—	161	—
76. Drawings on United States and Canadian Government lines of credit	—	—	—	—	—	—	—	—	279
77. *less* Subscriptions under Bretton Woods Agreement Act, 1945 ...	—	—	—	—	—	—	—	—	–33
78. Accruals of post-war credits	—	—	—	10	160	208	245	222	–90
79. *less* Sinking funds ...	–11	–14	–12	–17	–13	–15	–16	–16	–17
80. Finance through government agencies	249	199	637	337	407	143	203	28	23
81. Post Office and Trustee Savings Bank	1	19	119	214	234	301	325	355	270
82. National Savings Certificates including increase in accrued interest ...	3	21	167	214	232	297	265	159	61
83. Defence Bonds	—	22	180	174	134	121	112	154	194
84. Other public issues (net)	73	10	567	1,031	1,047	1,060	896	1,176	–2
85. Increase in fiduciary issue	10	–30	50	150	170	150	150	150	50
86. Increase in Treasury Bills held outside government departments and in Bank Ways and Means	–189	310	129	279	151	433	537	565	321
87. Treasury deposit receipts	—	—	338	474	155	434	394	–158	40
88. Tax reserve certificates	—	—	—	17	453	177	113	41	–132
89. Other borrowing ...	–102	352	1,550	2,553	2,576	2,973	2,792	2,442	802
90. Total deficit	147	551	2,187	2,890	2,983	3,116	2,995	2,470	825

For notes on the items of this table see pp. 41 and 42.

NOTES ON TABLES IN APPENDIX II

Table 19

The term central government has been used in a wider sense in this and the succeeding table than in the corresponding tables of Cmd. 6784. Central government revenue and expenditure now include the current receipts and payments of the various war damage and war risks insurance funds and of all extra-budgetary funds except the national insurance funds treated separately in table 21.

Direct taxes.—The figures given for items 1 to 5 represent net receipts by the Board of Inland Revenue.

1. This item excludes (*a*) income tax due for repayment after the war, which has been treated as personal saving, and (*b*) income tax on post-war refunds of Excess Profits Tax, which appear on the other side of the account (item 28) after deduction of income tax.

4. This item represents gross receipts of Excess Profits Tax. Post-war refunds have been treated as an item of expenditure (item 28).

6. Contributions and premiums under the War Damage Act, Parts I and II.

7. Inland Revenue duties other than stamp duties and those shown above, *plus* direct taxes levied by the Government of Northern Ireland, *plus* certain components of miscellaneous revenue and appropriations in aid of Votes (*e.g.* fines and gifts), *less* an estimate of direct taxes paid by foreigners (which have been treated as government income from property).

Indirect taxes.—Items 8 to 12 and item 14 represent net receipts by H.M. Customs and Excise and by the Board of Inland Revenue respectively.

15. The surplus shown in the Post Office commercial accounts. In Cmd. 6784 this surplus was treated as a trading profit and not as an indirect tax.

17. Excise licences not collected by H.M. Customs and Excise, *plus* wireless licences, *plus* indirect taxes levied by the Government of Northern Ireland, *plus* certain appropriations in aid of Votes, *less* an estimate of indirect taxes paid by foreigners (which have been treated as government income from property).

20. Receipts from Crown Lands, *plus* the interest component of receipts from Sundry Loans, *plus* certain items in miscellaneous revenue, such as contributions towards the cost of the war received from colonial governments and peoples, *plus* current receipts under the Bank of England Act, 1946, the Overseas Trade Guarantees Act, 1939, the Housing (Temporary Accommodation) Act, 1944, and the Building Materials and Housing Act, 1945, *plus* investment income received by the war risks insurance funds and other extra-budgetary accounts managed by the National Debt Commissioners, *plus* the excess of interest received by the Local Loans Fund over interest paid on Local Loans stock.

21. See note to item 43 of table 17 (p. 29).

23. Including all war expenditure, even though of a capital nature.

24. This item was not previously treated as a part of government expenditure, but was shown separately as a constituent of private net capital formation (item 10 of table 20 in Cmd. 6784).

25. Agricultural subsidies such as the beet sugar subsidy, milk subsidy, wheat deficiency payments and grants in respect of fertilizers, grassland ploughing and field drainage; acreage payments; losses incurred on the commercial accounts of the Ministry of Food and the Ministry of Transport; subsidies in respect of coal paid by the Ministry of Fuel and Power; subsidies in respect of utility clothes and certain raw materials met by the Board of Trade and the Ministry of Supply; subsidy to civil aviation.

26*a*. Old age pensions and supplementary pensions.

26*b*. These payments were made only from August 1946 onwards.

26*c*. The Ministry of Food's contributions to the cost of milk provided under the National Milk and milk-in-schools schemes and of orange-juice, cod-liver oil and vitamin tablets provided under the vitamin schemes.

26*d*. Allowances paid by the Assistance Board.

27. Identical with item 19 of table 16.

27*e*. Fireguards' allowances and transfer payments made by the Government of Northern Ireland.

28. Payments in respect of claims under the commodities and marine war risks insurance schemes and the War Damage Act. The same as item 57 of table 18.

29. These payments are shown after deduction of income tax.

34. The same as item 32 of table 19.

Table 20

35. The amount provided for maintenance work on buildings and roads. This provision is also included in item 23 above. It is not a close estimate but is believed to be of the right order of magnitude.

36. Including capital receipts other than borrowed monies. The channels through which this borrowing was financed are detailed in table 24.

38. Post Office loan expenditure, Road Fund expenditure on improvements and new construction, expenditure on the manufacture of pre-fabricated houses, *plus* expenditure on maintenance of buildings and roads. All expenditure connected with the war has been excluded even though it was of a capital nature. Logically, changes in government-owned stores of food and raw materials should be included in this item rather than in item 23 of table 24. The figures shown refer to fixed capital only, however.

39 and 40. These two items are given separately since they represent mere transfers of existing assets from private to public ownership and *vice versa*. Item 39 includes only the State's expenditure on acquiring the assets of the Bank of England. Logically, this item should include also purchases of land and buildings, which have here been included in item 38. Item 40 shows the sales of surplus stores, whether or not the proceeds have been paid into the Exchequer. It excludes sales by one government department to another. The expenditure of the purchasing department is similarly excluded from items 23 and 24.

Table 21

This table sets out the revenue account of the Unemployment Fund, the various national health insurance funds and the contributory pensions scheme.

42. Contributions of employees and voluntary contributors.

43. Employers' contributions.

44. Investment income, mainly national debt interest.

45. Exchequer contributions to the Unemployment Fund, national health insurance funds and Treasury Pensions and Special Pensions Accounts.

50. Cash benefits under the national health insurance scheme.

Table 22

54. Composed of local rates and central government contributions in lieu of rates, with the exception of water rates, which are treated as current receipts from a trading service.

55. An estimate of the profits from trading services and corporation estates treated in such a way that contributions to rate fund accounts are included, while transfers from rate fund accounts in aid of deficiencies are not.

58. This item consists of all local authorities' expenditure on revenue account other than that recouped from the private sector of the economy in the form of fees, rents, etc., *plus* capital expenditure on emergency services, *less* the housing subsidies shown separately in item 59.

59. The excess of local authorities' expenditure on housing service revenue account over their receipts from rents.

60. Public assistance (out-relief) in cash and kind.

Table 23

63. The same as item 61 of table 22.

64. Sums repaid to lenders and transferred to sinking funds (which are treated as the equivalent of depreciation allowances), *plus* an estimate of sums provided for maintenance of highways and bridges and included in item 58.

67. Capital expenditure on works, *less* receipts from the sale of assets, *plus* maintenance of highways and bridges.

Table 24

69, 70 and 71. The net increase in these funds available for loan to the Exchequer, *less* the excess of interest received over interest paid by the Local Loans Fund, which has been included in central government revenue.

72. The net increase in government securities held by the Exchange Equalisation Account, *plus* the reduction in the Exchequer balance, *plus* repayments of principal included in receipts from Sundry Loans and Miscellaneous Receipts, *less* government lending included in Ordinary Expenditure, *less* net issues under certain Acts, *e.g.* North Atlantic Shipping Act, 1934, Tithe Act, 1936, Anglo-Turkish (Armaments Credit) Agreement Act, 1938, Overseas Trade Guarantees Act, 1939. The item also includes an allowance for the increase or decrease in government liabilities to industry (to balance item 24 of table 19) and, in 1946, the amount of 3 per cent. Treasury Stock issued (to balance item 39 of table 20).

75. The net sum due from the United Kingdom to the United States for the settlement of Lend-Lease and Reciprocal Aid, for the acquisition of surplus property and the United States interest in installations located in the United Kingdom and for the settlement of claims.

78. This item is made up of two components;

(*a*) the amount of income tax paid in each year that is repayable subsequently as post-war tax credits; this amount has been excluded from tax revenue (item 18 of table 19);

(*b*) the amount of pay credits that accrued to members of the Armed Forces during their period of services; an equivalent amount has been included in central government expenditure on goods and services (item 23 of table 19).

When these tax and pay credits are cashed the figure becomes negative, since in effect the government is repaying its previous borrowing.

80. The sum of items 69 to 79, the total of sums used to finance the central government deficit which is received from government funds and similar sources as opposed to loans from the public.

81. The increase in investments from the net deposits in the Post Office and Trustee Savings Banks. These deposits include certain war gratuities not yet encashable; an equivalent amount has been included in miscellaneous transfer payments (item *27a* of table 19).

82 and 83. Receipts *less* repayments.

84. Receipts from public issues, *e.g.* National War Bonds and Savings Bonds and Other Debt (net) *less* securities redeemed and excluding purchases of government securities (war or pre-war issues) by public departments and by the Land Fund.

86. The increase in bills held by the market or by Empire Funds and in Bank Ways and Means Advances, *plus,* in 1946, the short-term loan from the Argentine Government.

87. Receipts *less* repayments.

88. The increase in the amount of certificates outstanding.

89. The sum of items 81 to 88, showing the amount of public borrowing at home, whether from British citizens and/or from foreign lenders.

90. The sum of items 80 and 89; the same as item 36 of table 20.

APPENDIX III

CONSUMERS' EXPENDITURE

PERSONAL EXPENDITURE ON CONSUMERS' GOODS AND SERVICES AT CURRENT MARKET PRICES

TABLE 25 — £ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
1. Food—									
a. Household expenditure									
Bread and cereals ...	165		220	244	246	229	229	228	245
Meat, bacon, etc. ...	276		309	274	300	293	327	293	313
Fish, fresh and canned	43		39	46	36	35	41	56	65
Oils and fats ...	98		65	59	57	58	59	58	64
Sugar, preserves and confectionery ...	108		128	112	110	106	100	92	103
Dairy products ...	204		194	220	237	232	234	243	255
Fruit, fresh, canned and dried ...	91	1,234	85	35	61	51	55	63	111
Potatoes and vegetables	103		103	128	147	146	158	163	174
Beverages not included below ...	54		52	51	50	47	49	55	60
Other manufactured food	39		73	72	78	78	80	86	104
Total	1,181	1,234	1,268	1,241	1,322	1,275	1,332	1,337	1,494
b. Other personal expenditure... ...	77	78	102	115	124	130	141	145	156
Total food	1,258	1,312	1,370	1,356	1,446	1,405	1,473	1,482	1,650
2. Alcoholic beverages—									
a. Beer	195	211	273	346	420	470	529	550	513
b. Other	90	99	104	118	122	139	135	138	167
3. Tobacco—									
a. Cigarettes	144	168	215	264	343	412	427	475	511
b. Other	33	36	45	53	71	78	79	87	92
4. Rent, rates and water charges	491	510	519	515	509	510	515	526	538
5 Fuel and light—									
a. Coal	108	106	120	129	126	120	121	120	120
b. Electricity	33	36	39	41	42	42	47	52	65
c. Gas	38	39	45	47	51	55	59	66	75
d. Other	16	16	19	20	21	21	25	28	29

TABLE 25—*continued* £ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
6. Durable household goods—									
a. Furniture and furnishings	152	146	139	128	114	83	68	92	176
b. Hardware	82	77	73	69	60	58	59	80	125
7. Other household goods—									
a. Matches	10	12	12	11	10	10	10	9	11
b. Soap	30	30	31	31	28	28	29	29	28
c. Other	14	14	16	15	15	14	16	18	21
8. Clothing—									
a. Footwear	73	78	90	91	97	87	90	94	108
b. Other clothing:									
(i) Men's and boys' wear	127	131	137	116	123	101	125	130	157
(ii) Women's wear, etc.	246	249	269	245	267	241	279	293	346
9. Books, newspapers and magazines—									
a. Books	10	9	8	13	17	20	21	23	27
b. Newspapers	36	36	36	37	38	40	43	45	51
c. Magazines	18	18	18	18	18	19	21	23	26
10. Private motoring ...	127	114	48	41	23	11	11	37	121
11. Travel—									
a. Railway	55	52	48	59	74	86	90	102	104
b. Other	105	100	91	106	121	122	121	137	159
12. Communication services—									
a. Postal	18	17	20	24	26	32	36	33	32
b. Telephone and telegraph	11	12	12	13	13	16	18	19	22
13. Entertainments—									
a. Cinemas	} 64	61	61	87	118	138	146	117	121
b. Other								41	58
14. Other services... ...	481	475	481	486	450	435	441	496	608
15. Other goods	177	181	187	189	184	190	201	228	304
16. Income in kind of the Armed Forces ...	17	29	81	135	146	185	199	204	109
17. Total of above items ...	4,259	4,374	4,607	4,803	5,093	5,168	5,434	5,774	6,474
18. Adjustment	—7	5	20	25	40	50	40	110	110
19. Total	4,252	4,379	4,627	4,828	5,133	5,218	5,474	5,884	6,584

The figures relate as far as possible to expenditure met out of personal income including that of charities and other non-profit-making bodies as well as of individuals. The figures for individual categories relate to purchases in this country even when made by tourists or Dominion and Allied troops. On the other hand they do not include consumers' expenditure abroad out of British personal income. A rough adjustment for these factors is included in item 18.

Expenditure on consumers' goods and services by business and public authorities is, as far as possible, excluded except in certain cases where the object purchased is re-sold to persons as part of a composite product or service. Thus, personal expenditure on meals in restaurants and hotels is spread over several categories: the cost to the establishment of the food used appears in item 1, food; the rent of the building in item 4, rent, rates and water charges; the chinaware and cooking utensils purchased in item 6, hardware and an allowance for the purely service and managerial element of expense in item 14, other services.

The figures represent the expenditure of consumers in the above sense on goods and services of all kinds whether these are provided out of new production or from stock. Second-hand goods are not included, but an allowance is made in item 14, other services, for the costs, including profit, of handling and reconditioning them.

The items included in each group are set out below:

1. Food—comprises purchases of food, including non-alcoholic beverages, by households, together with the value at farm prices of farm produce consumed on farms and the cost to the establishment of food used in canteens, restaurants and hotels. The full value of the welfare foods provided under the National Milk, milk-in-schools and vitamin schemes is included in this item.

The composition of the sub-groups of household expenditure is shown in greater detail below:

Bread and cereals, etc.	Bread, flour, cakes and biscuits, oatmeal, rice and starch.
Meat, bacon, etc. ...	Meat, offal, canned meat, bacon and ham, meat products, rabbits, game and poultry.
Oils and fats ...	Butter, margarine, lard and edible vegetable oils.
Sugar, preserves and confectionery	Sugar, jam, marmalade, chocolate and sugar confectionery and glucose.
Dairy products ...	Fresh, canned and dried milk, cheese, eggs in shell, dried, liquid and frozen eggs.
Beverages not included below	Tea, coffee and cocoa.
Other manufactured food	Miscellaneous manufactured products of which the more important are cereal breakfast foods, custard and blancmange powders, macaroni, spaghetti, etc., canned soups, syrup and treacle, and soft drinks.

2. Alcoholic beverages—

a. Beer, ale, stout and porter.

b. Imported wines, British wines, spirits, cider and perry.

3. Tobacco—comprises purchases in the United Kingdom, including gifts to troops overseas. An allowance has been made for the concession introduced in 1942, by which members of the Armed Forces were able to buy a limited quantity of tobacco at N.A.A.F.I. canteens at reduced prices.

a. Home-produced cigarettes.

b. Home-produced pipe tobacco, cigars, snuff and all imports of finished tobacco products.

4. Rent, rates and water charges—includes an allowance for buildings occupied by non-profit-making bodies and for hotels, boarding houses, etc.

in addition to private dwelling houses. There can be no doubt that the figures are too low since they take no account of any rents which are charged in excess of Schedule A income tax valuations.

5. Fuel and light—includes the value of the fuel and power only. The cost of the hire of equipment is included in item 14.

a. Coal—includes miners' coal valued at pithead prices.

b. Electricity.

c. Gas.

d. Coke, oil fuels and firewood.

6. Durable household goods—

a. Furniture, furnishings, household textiles, floor coverings and musical instruments (including wireless sets, gramophones and accessories).

b. Pottery and glassware, ironmongers' goods, electrical goods, heating and cooking appliances, sewing machines and refrigerators.

7. Other household goods—

a. Matches.

b. Toilet, shaving and household soap, scourers, etc.

c. Polishes, candles and nightlights, miscellaneous cleaning materials, etc.

8. Clothing—

a. Footwear covers all new boots, shoes, slippers, etc., but not socks and stockings, repairs or repair materials.

b. Other clothing covers all kinds of garments, dress materials, millinery, haberdashery, etc. An allowance for the making-up of customers' materials is included but expenditure on alterations and repairs appears in item 14. All dress materials are allocated to *b* (ii), and so are such things as knitting wool and general haberdashery. Infants for this purpose are children under about four years of age.

9. Books, newspapers and magazines—

a. Books.

b. Newspapers.

c. Magazines.

10. Private motoring—comprises an estimate of the purchases by persons of motor-cars, motor-cycles and motor accessories and the running expenses incidental to their use, together with an allowance for dealers' margins on second-hand vehicles. For the first time this item includes the cost of licensing the vehicles. Previously motor vehicle duties paid out of personal income were treated as direct taxes.

11. Travel—includes all travel in public conveyances paid for out of personal income and therefore the travel of members of the Armed Forces when at their own expense.

a. Main line, joint line and London Passenger Transport Board railways.

b. Buses, coaches, trams, trolley-vehicles, taxis, etc.

12. Communication services—

a. Postage on letters, parcels, etc., and the poundage on postal and money orders.

b. Telephone rentals, local and trunk calls and telegrams.

13. Entertainments—

a. Admissions to cinemas.

b. Admissions to theatres, concert-halls, music-halls, sporting events, dance-halls, skating rinks and all other places of public amusement and expenditure on wireless licences.

14. Other services—includes expenditure out of personal income on the factors of production taken up in providing all forms of assurance and in facilitating the acquisition and transfer of property (including stamp duties thereon), expenditure on medical services not provided under the national health insurance scheme, undertaking, hairdressing, hotel and restaurant services, domestic service, repairs to furniture, clothing, footwear, watches, etc., dealers' margins on second-hand goods (other than motor vehicles), the hire of domestic heating and cooking equipment and other miscellaneous services.

15. Other goods—includes stationery, fancy goods, jewellery, bicycles, travel goods, toys and sports goods, chemists' wares other than drugs and medicines provided under the national health insurance scheme, flowers, garden seeds, domestic pets, etc., and dog and gun licences.

16. Income in kind of the Armed Forces—cost of providing members of H.M. Forces and Auxiliary Services with food and clothing, including civilian clothing issued on release from the services.

17. Adjustment.—The figures in all the previous categories include expenditure in the United Kingdom by tourists from overseas and Allied troops temporarily resident in this country and exclude expenditure abroad by British tourists and members of the Armed Forces. An adjustment is needed to convert the total to a total of purchases out of British income. The adjustment given here also includes a rough allowance for the excess of personal remittances abroad from this country over remittances received in this country from overseas. This is because remittances sent abroad appear in British income but not in British expenditure whereas remittances received from overseas are not treated as income although they finance British expenditure.

PERSONAL EXPENDITURE ON CONSUMERS' GOODS AND SERVICES REVALUED AT 1938 PRICES

TABLE 26

£ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
1. Food	1,258	1,280	1,146	1,054	1,109	1,076	1,124	1,124	1,232
2. Alcoholic beverages—									
a. Beer(1)	195	203	202	230	233	236	249	258	245
b. Other	90	95	82	85	70	68	63	65	75
3. Tobacco—									
a. Cigarettes	144	150	149	166	174	176	177	195	203
b. Other	33	32	29	31	32	29	28	31	33
4. Rent, rates and water charges	491	504	507	502	496	497	502	509	514

TABLE 26—*continued* £ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
5. Fuel and light—									
a. Coal	108	106	109	108	101	91	84	78	75
b. Electricity	33	37	39	41	42	42	48	55	70
c. Gas	38	38	37	38	39	41	43	47	53
d. Other	16	16	16	16	15	14	15	16	17
6. Durable household goods—									
a. Furniture and furnishings	152	144	105	70	48	36	30	42	81
b. Hardware	82	75	59	45	33	31	30	40	67
7. Other household goods—									
a. Matches	10	12	9	7	7	7	7	6	8
b. Soap	30	30	30	30	25	24	24	24	23
c. Other	14	13	13	11	10	9	9	10	12
8. Clothing—									
a. Footwear	73	76	68	58	56	53	53	54	62
b. Other clothing									
(i) Men's and boys' wear	127	127	103	70	69	57	69	70	84
(ii) Women's wear, etc.	246	241	201	147	148	137	153	155	184
9. Books, newspapers and magazines—									
a. Books	10	9	7	11	13	15	16	17	19
b. Newspapers	36	36	35	34	35	36	40	41	47
c. Magazines	18	18	17	16	15	16	17	19	22
10. Private motoring ...	127	113	38	30	17	8	8	25	71
11. Travel—									
a. Railway	55	52	44	51	64	75	78	88	84
b. Other	105	100	85	94	107	108	107	122	142
12. Communication services—									
a. Postal	18	17	16	16	19	24	28	25	24
b. Telephone and telegraph	11	12	11	11	12	13	14	15	18
13. Entertainments	64	61	53	75	87	88	88	93	102
14. Other services	481	470	434	416	371	350	342	365	424
15. Other goods	177	177	162	131	109	110	113	120	152
16. Income in kind of the Armed Forces ...	17	28	68	105	112	139	152	155	81
17. Total of above items ...	4,259	4,272	3,874	3,699	3,668	3,606	3,711	3,864	4,224
18. Adjustment(2)	—7	5	17	19	29	35	27	74	72
19. Total	4,252	4,277	3,891	3,718	3,697	3,641	3,738	3,938	4,296

(1) The bulk barrel has been taken as the unit of quantity in this table : if, instead, the standard barrel were taken the series would run : 195, 202, 194, 203, 196, 201, 210, 231, 199 (£ million at 1938 prices).

(2) There is no proper basis for revaluing the adjustment given in the corresponding line of table 25. The figures given here are in the same ratio to the figures in table 25 as the total in line 17 is to the corresponding total in table 25.

The figures shown for consumers' expenditure at 1938 prices have all been estimated by the same method. The quantities of each item actually bought in any particular year have been revalued at their 1938 prices and the resulting products have been added in order to arrive at a total. Thus, the movement of the total in line 19 is of very limited significance. If consumers, unable to buy clothes and furniture, spend their money instead on semi-luxuries which are in good supply, the total is unaffected even though consumers' satisfactions are reduced.

Tables 25 and 26 have dealt with consumption of goods and services from the consumer's point of view. Table 27 shows, on the other hand, what the producers and sellers of these goods and services actually receive. This is made up of consumers' expenditure, *less* indirect taxes paid to public authorities, *plus* subsidies received from public authorities. The method of allocation of taxes and subsidies used is described in the notes to table 1 on p. 56.

NATIONAL COST OF CONSUMERS' GOODS AND SERVICES

TABLE 27 — £ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
1. Food	1,184	1,233	1,312	1,312	1,423	1,429	1,525	1,575	1,817
2. Alcoholic beverages ...	169	181	189	233	261	265	300	310	314
3. Tobacco	87	92	95	109	119	121	121	146	156
4. Rent, rates and water charges	354	365	368	363	361	362	369	373	373
5. Fuel and light	186	189	211	224	227	228	245	259	281
6. Durable household goods	221	212	202	158	135	110	100	143	251
7. Other household goods	48	50	52	48	45	44	46	49	51
8. Clothing	419	432	467	381	415	381	453	477	558
9. Books, newspapers and magazines	62	61	59	64	70	74	82	88	101
10. Private motoring ...	91	81	28	21	11	7	7	24	91
11. Travel	141	134	123	147	173	189	195	223	242
12. Communication services	26	26	27	28	30	37	43	39	41
13. Entertainments	49	46	47	64	82	89	92	100	111
14. Services not included above	456	451	458	458	424	409	420	476	575
15. Other goods	166	170	175	160	148	151	162	183	236
16. Income in kind of the Armed Forces ...	16	27	74	125	138	178	190	202	112
17. Adjustment	—7	5	20	25	40	50	40	110	110
18. Total	3,668	3,755	3,907	3,920	4,102	4,124	4,390	4,777	5,420

APPENDIX IV

THE GOLD AND U.S. DOLLAR RESERVES AND EXTERNAL LIABILITIES OF THE UNITED KINGDOM

The following tables continue tables 6 to 9 of Cmd. 6707 but are compiled on a slightly different basis. The figures of gold and U.S. dollar reserves of the United Kingdom given in table 28 below, unlike those in table 8 of Cmd. 6707, are shown without deduction of outstanding liabilities to provide gold against sterling liabilities and of liabilities to convert U.S.A. holdings of sterling into dollars. Consequently, these liabilities are now included in the figures shown below of external liabilities of the United Kingdom. The receipt of revised or additional information has also caused further amendments in tables 29 and 30 below as compared with tables 6 and 7 of Cmd. 6707.

GOLD AND U.S. DOLLAR RESERVES

TABLE 28 — £ million

	At 31st December		
	1944	1945	1946
Total gold and U.S. dollar reserves	584	581	642

EXTERNAL LIABILITIES

TABLE 29 — £ million

	Outstanding on 31st December		
	1944	1945	1946
Net sterling, etc., liabilities(1)	2,887	3,332	3,480
External loans	284	493	734
Total external liabilities	3,171	3,825	4,214

(1) Comprising bankers' liabilities *less* assets, and funds held in the United Kingdom as cover for overseas currencies, etc., but not including private holdings of securities, etc.

EXTERNAL LIABILITIES BY AREAS

TABLE 30 — £ million

	Outstanding on 31st December		
	1944	1945	1946
Sterling Area			
Dominions(1)	390	481	444
India, Burma and Middle East	1,524	1,929	1,883
Other sterling area countries	477	561	593
Total sterling area	2,391	2,971	2,920
North and South America	346	519	847
Europe(2)	378	273	356
Rest of world	56	62	91
Total external liabilities	3,171	3,825	4,214

(1) Excluding Canada.
(2) Including dependencies of European countries.

BALANCE OF PAYMENTS
CAPITAL ACCOUNT(1)

TABLE 31 — £ million

	1945	1946
Gold and U.S. dollar reserves	— 3	61
U.S. and Canadian lines of credit	—	— 279
U.S. Government Loan (Lend-Lease, etc., settlement) ...	— 161	—
Other loans to H.M. Government	— 48	38
Net sterling, etc., liabilities	— 445	— 148
External capital assets(1)	— 110(2)	— 70(2)
Subscriptions under Bretton Woods Agreement Act, 1945 ...	—	33
Other(3)	— 108	— 35
Total external investment (equal to balance on current account)	— 875	— 400

(1) Increases in assets and decreases in liabilities are shown as positive, and decreases in assets and increases in liabilities as negative items.
(2) So far as ascertained.
(3) Including an allowance for errors and omissions on capital account.

APPENDIX V

THE SOCIAL ACCOUNTS OF THE UNITED KINGDOM 1938 AND 1946

A. Consolidated Trading Account of Business Enterprises

£ million

Receipts	1938	1946	Payments	1938	1946
1. Sales to :			4. Purchases from overseas (46a)	922	1,267
a. Persons (20c) ...	4,092	6,489	5. Provision for depreciation (40a) ...	340	480
b. Government (30a)	282	653	6. Indirect taxes (27b)...	651	1,594
c. Capital account (43)	770	1,314	7. Payments to factors of production :		
d. Overseas (49) ...	733	1,112	*a.* Wages and salaries (16a) ...	2,477	3,961
2. Subsidies from government (34)	36	360	*b.* Gross trading profit (9) ...	1,523	2,626
3. Total receipts	5,913	9,928	8. Total payments ...	5,913	9,928

B. Property Income Appropriation Account

£ million

9. Trading profit (7b) ...	1,523	2,626	13. Gross dividends, interest and rent paid to :		
10. Interest on Government debt :			*a.* Overseas (47) ...	30	70
a. National (28b) ...	223	530	*b.* Persons (17) ...	1,655	2,567
b. Local (32b) ...	50	50	*c.* Government (28a)	57	60
11. Income from overseas (50)...	205	150	14. Undistributed profits :		
			a. Tax paid to government (26*b*)	77	584
			b. Additions to tax reserves (39*b*) ...	12	—135
			c. Additions to free reserves (38b) ...	170	210
12. Total receipts	2,001	3,356	15. Total payments ...	2,001	3,356

C. Revenue Account of Persons

£ million

16. Wages and salaries paid by :			20. Consumption expenditure at home :		
a. Business enterprises (7a) ...	2,477	3,961	*a.* Personal services (16c)	118	69
b. Government (32a)	328	1,188	*b.* Employers' Insurance contributions (27a)	2	1
c. Other persons (20a)	118	69	*c.* Other goods and services (1a) ...	4,092	6,489
17. Dividends, interest and rent (13b)	1,655	2,567	21. Consumption expenditure abroad (46c) ...	40	25
18. Transfer Incomes (35a)	270	737	22. Direct taxes paid (26a)	439	1,292
			23. Additions to tax reserves (39a) ...	4	—21
			24. Saving (38a)	153	667
19. Total receipts	4,848	8,522	25. Total payments ...	4,848	8,522

D. Revenue Account of Government

£ million

Receipts	1938	1946	Payments	1938	1946
26 Direct taxes paid by :			30. Purchases from :		
a. Persons (22) ...	439	1,292	*a.* Business enterprises (1b) ...	282	653
b. Business enterprises (14a) ...	77	584	*b.* Overseas (46b)...	16	300
27. Indirect taxes paid by :			31. Provision for depreciation (40b) ...	110	120
a. Persons (20b) ...	2	1			
b. Business enterprises (6) ...	651	1,594	32. Payments to factors of production :		
c. Government (33)	3	18	*a.* Wages and salaries (16b)	328	1,188
28. Income from property:			*b.* Interest on local debt (10b) ...	50	50
a. Interest and dividends received (13c)	57	60			
b. less National debt interest (10a) ...	—223	—530	33. Employers' insurance contributions (27c)	3	18
			34. Subsidies to trading account (2) ...	36	360
			35. Transfers to :		
			a. Revenue account of persons (18) ...	270	737
			b. Private capital account (41) ...	—	298
			36. Surplus on current account (38c) ...	—89	—705
29. Total receipts ...	1,006	3,019	37. Total payments ...	1,006	3,019

E. Combined Capital Account

£ million

38. Saving by :			43. Purchase of goods and services (gross capital formation at home) (1c) ...	770	1,314
a. Persons (24) ...	153	667			
b. Business enterprises (14c) ...	170	210			
c. Government (36)	—89	—705	44. Net lending abroad and purchase of assets and financial claims from overseas (51)...	—70	—400
39. Additions to tax reserves by :					
a. Persons (23) ...	4	—21			
b. Business enterprises (14b) ...	12	—135			
40. Provision for depreciation by :					
a. Business enterprises (5) ...	340	480			
b. Government (31)	110	120			
41. Transfers from government (35b) ...	—	298			
42. Total receipts ...	700	914	45. Total payments ...	700	914

F. Account of Overseas with the United Kingdom

£ million

Receipts	1938	1946	Payments	1938	1946
46. Sales to the United Kingdom :			49. Purchases from enterprises in the United Kingdom (1d) ...	733	1,112
a. Enterprises (4)	922	1,267			
b. Government (30b)	16	300			
c. Persons (21) ...	40	25	50. Dividends, interest and rent paid to the United Kingdom (11)	205	150
47. Dividends, interest and rent received from the United Kingdom (13a)	30	70	51. Net lending to the United Kingdom (44)	70	400
48. Total receipts ...	1,008	1,662	52. Total payments ...	1,008	1,662

The tables in this appendix summarise in accounting form the money flows of the British economy. It is, because of the lack of sufficiently detailed data, a highly simplified system of accounts, and even so it has been possible to set it out only for two years. It is published here, in spite of its bareness, because it is believed to be a clear way of setting out the relations between the different sectors of the economy.

The titles of the different accounts are in general self-explanatory so that it is unnecessary to add much by way of commentary.

The general principle is that of normal double-entry accounting: every receipt by an account appears also as a payment or a negative receipt by that account or some other. The numbers in brackets after each item refer to the *contra* item on the other side of the account.

Account A sets out the consolidated trading account of all business enterprises, both public and private.(1) On the receipts side appear the proceeds of sales to different classes of purchaser, together with subsidies received from the Government. On the payments side appear the outgoings of business enterprises on purchases of imported goods and services, provision for depreciation, indirect taxes and labour costs, together with the trading profit.

The trading profit is then carried down to what has here been called the property income appropriation account (B). To the trading profit is added other income from holdings of the national debt and other securities, domestic and foreign. The total of these receipts represents total property income. Part of it is distributed in the form of dividends, interest and rent; part is paid to the government in taxes on profits; the remainder is carried to capital account as additions to free reserves.

Account C shows on the receipts side the income of persons received as dividends, etc., from account B, their wages and salaries paid out of account A and in addition their earnings from direct services to other persons and to the government and transfer incomes. These receipts are spent at home and abroad on consumers' goods and services, paid in taxes to the government or saved, *i.e.*, put to capital account.

Account D shows the current non-trading receipts of government (local authorities, national insurance funds and central government) and their disposal. Any surplus, whether positive or negative, is carried down to the capital account.

(1) The concept of enterprise used here is wider than that adopted in table 7 in that the gross rents of dwelling houses are here treated as part of the receipts of business enterprises.

Account E consolidates the capital account of the whole economy. On the receipts side appear the various sums saved out of current receipts by persons, business enterprises and government, together with the sums set aside to provide for replacement of worn-out assets. All these sums are available to finance replacement of and additions to the national stock of assets at home and abroad.

Account F summarises the relations of other countries to this country. It is, in fact, this country's balance of payments on current account looked at from the point of view of the outside world. Hence, imports appear as a receipt of money (by the outside world), exports as a payment, and so on.

It is possible to derive from these accounts all the significant totals of income and expenditure set out in the earlier tables of this Paper. A few examples only will be given. The net national product may be thought of as made up of the value of the net output produced in this country and of net income from overseas:

	1938	1946
	£ million	
Net output produced in the United Kingdom (7+20a+32) ...	4,496	7,894
Net income from overseas (50−47)	175	80
Net national product	4,671	7,974

A different grouping of items gives a distribution of income between factors of production:

	1938	1946
	£ million	
Wages, salaries and pay of Armed Forces (16)	2,923	5,218
Rent, interest and profit (12+28b−13a)...	1,748	2,756
National income	4,671	7,974

The net national expenditure in the form given in table 15 can also be obtained from these accounts:

	1938	1946
	£ million	
Personal expenditure on consumption (20+21)...	4,252	6,584
Government current expenditure on goods and services (30+31+32+33)...	789	2,329
Domestic capital formation (43−40)	320	714
Net lending abroad (44)	−70	−400
Subsidies (34)	36	360
less indirect taxes (27)	−656	−1,613
Net national expenditure	4,671	7,974

32405

APPENDIX VI

A COMPARISON WITH Cmd. 6784

The figures given in this Paper in some cases differ substantially from the estimates published in Cmd. 6784. There is no single reason for this which can be briefly set out. In part the revisions are due to differences of definition; when this is so the change is explained in the notes to the tables. In part it is due to the fact that estimates based on tax statistics must necessarily be provisional until assessments have been finally agreed, which is in some cases several years after the income has been earned and spent.

This last factor is responsible for the overestimation in Cmd. 6784 of the rise in profits and interest during the later war years. It is not to be expected that the present estimates will be any less immune from later amendment. The direct influence of such errors on the total national income or expenditure is, of course, small; the indirect effect on the residual items which still cannot be separately estimated is proportionately much greater. These items, private saving and private net capital formation, in fact, absorb the whole effect of errors of estimation. This can be clearly seen in the case of private saving in table 33 below (though it should also be stressed that the size of the variations in the successive estimates of saving is in part due to the fact that the year 1938, when saving was small, has been taken as base).

RELATIVE MOVEMENTS OF SOME OF THE MAIN SERIES
(1938 = 100)

TABLE 33

	1938	1939	1940	1941	1942	1943	1944	1945	1946
National Income	100	108	128	149	164	175	179	179	171
as given in Cmd. 6784...	100	108	128	149	165	176	182	184	—
,, ,, 6623...	100	108	128	149	164	175	180	—	—
Consumers' expenditure on goods and services ...	100	103	109	114	121	123	129	138	155
as given in Cmd. 6784 ...	100	103	108	113	120	122	128	136	—
,, ,, 6623 ...	100	102	107	112	118	120	126	—	—
Private saving including allowance for accrued taxation...	100	155	307	411	494	535	500	424	213
as given in Cmd. 6784 ...	100	157	323	420	470	503	476	447	—
,, ,, 6623 ...	100	151	315	408	444	484	465	—	—

This table illustrates only changes in successive estimates of the movement of the various magnitudes over time. There have also been appreciable revisions of the absolute level of some of the estimates. Expenditure on food and services is now believed to have been underestimated not only during the war years but also in 1938, a year for which it has been possible to estimate separately each component of the national expenditure. These revisions made the estimates of expenditure inconsistent with the old estimates of income.

In order to reconcile the figures for 1938 an addition has therefore been made to income in that year to cover unassessed income and expense allowances. This addition has been increased somewhat in the later years, but is thought still to err on the conservative side. Until it is possible to get a direct measure of capital formation, however, the true figure of income is bound to remain uncertain.

One other major revision has been made. The wage bill of each industry has been separately calculated for the later years of the period. The resulting total proved to be lower than the global estimates previously made and revealed that the method used to arrive at the figures published in Cmd. 6784 and earlier papers had, during the war years, a definite upward bias.

APPENDIX VII

NOTES ON CERTAIN TABLES

Table 1. National Resources and their Disposal.

The estimates of the national cost of particular kinds of expenditure given explicitly in table 1 and as percentages of the national income in table 2 are in each case derived from the estimates of expenditure at market value given in table 15, by deducting indirect taxes estimated to be contained therein and adding subsidies.

The allocation of indirect taxes and subsidies over the four categories of expenditure (personal consumption, government current expenditure, exports and net capital formation) is inevitably to some extent arbitrary. The method followed has been to adjust each of the four categories of expenditure for taxes and subsidies known to be specific to them; components of expenditure known to contain no general indirect taxes (*e.g.* expenditure on domestic service, government expenditure on the wages and salaries of civil servants and the Armed Forces) were then deducted and the general taxes and subsidies spread *pro rata* over the remaining parts of gross national expenditure. Net taxes included in the value of exports were added to the national income as part of government income from property; the others were deducted in order to arrive at the estimates of the national cost of particular items shown in table 1.

The allocation of the indirect taxes *less* subsidies included in items 7 to 9 of table 15 is given below.

ALLOCATION OF INDIRECT TAXES AND SUBSIDIES

TABLE 34

£ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
Net indirect taxes attributable to :									
Personal consumption...	584	624	720	908	1,031	1,094	1,084	1,107	1,164
Government current expenditure	24	43	134	215	214	239	224	130	68
Net capital formation at home	12	10	—10	—17	—15	—14	—13	3	21
Total indirect taxes *less* subsidies	620	677	844	1,106	1,230	1,319	1,295	1,240	1,253

Table 3. Balance of Payments: Current Account.

The figures given for 1938 are based on the Board of Trade's published estimates of the 1938 balance of payments which have been adapted so as to bring them into line with the classification used for 1946. But the original data differ considerably between the two years. The 1946 figures are to a large extent records of actual payments and receipts derived from exchange control and other sources; the 1938 figures are based on records in the Trade and Navigation Accounts of movements of imports and exports and on other data which did not in general measure actual receipts and payments. The two sets of figures are, therefore, not strictly comparable.

Notes on particular items in table 3 follow.

1. Includes imports from United Kingdom stocks overseas and from the United States "pipeline" as arranged in the Lend-Lease settlement of December 1945, as well as imports for re-export. Imports recorded in the

Trade Accounts c.i.f. were £921 million in 1938 and £1,298 million in 1946. These include shipping and insurance expenses and measure imports as they pass through the Customs. The f.o.b. figures in the table exclude shipping and insurance and measure imports as payment is made for them.

1(*e*). Includes ships (£5 million in 1946).

2(*a*). Expenditure on forces overseas *less* receipts from overseas governments on war account, including arrears and sales of surplus stores.

(*b*). U.N.R.R.A. and rehabilitation in Eastern Europe and the Far East, including advances to devastated countries.

(*c*). Cost of supplies for the British zone of Germany including exports from the United Kingdom (£20 million), *less* proceeds of German exports.

3. Partly estimated: comprises disbursements of United Kingdom ships abroad, freight and charter of foreign vessels and payments for British passengers in foreign ships. Excludes tankers.

10. Exports and re-exports as recorded in the Trade Accounts f.o.b. were £962 million in 1946. The figure in the table is an estimate of actual receipts from exports, which fall behind recorded shipments when these are increasing.

11. Partly estimated: comprises income from the carriage of United Kingdom exports and from cross-trades, expenditure of foreign vessels in the United Kingdom and receipts from foreign passengers in British ships.

12. Excludes insurance, shipping, and oil.

13. Includes, *inter alia,* net overseas earnings on oil and tankers, and an allowance for errors and omissions on current account. Items not specifically entered among payments are offset against various miscellaneous receipts in this item. Comparison between 1938 and 1946 is therefore precarious.

Table 4. Balance of Payments: Capital Account.

19. So far as ascertained.

20. Includes an allowance for errors and omissions on capital account.

Table 6. Composition of the National Wage Bill.

Wage-earners include all employees other than administrative, technical and clerical staff (*i.e.* managers, superintendents and works foremen; research, experimental, development, technical and design staff; draughtsmen and tracers; and office, including works' office, staff). Operatives employed in stores and warehouses, and canteen staffs directly employed by the firm, are included as wage-earners. Prisoners of war employed in this country are excluded, as are shop assistants and members of police forces and the National Fire Service (and the Civil Defence Services in 1945). The industrial groups are based on the Ministry of Labour's industrial classification; the grouping of industries, where it is not self-evident, is as follows:—

Metal manufacture: iron ore mining; pig iron manufacture; steel melting and rolling, etc., tinplates; and manufacture of non-ferrous metals.

Engineering and shipbuilding: General engineering; electrical engineering; marine engineering; railway carriages and wagons, etc.; shipbuilding and ship repairing.

Metal goods: hand tools and cutlery; iron and steel tubes; wire and wire netting; bolts, nuts and screws, etc.; and metal industries not separately specified.

Building materials and equipment: bricks, pipes, tiles, etc.; cement; cast stone; constructional engineering; electrical wiring and contracting; paints and varnish; glass manufacture (excluding bottles); wallpaper manufacture; brass and allied metal wares; stoves, grates and general iron-founding; heating and ventilating apparatus; sawmilling; woodworking not separately specified; lead, tin and copper mining; stone and slate quarrying and mining; clay, sand, gravel and chalk pits.

Textiles: excludes hosiery, lace and textiles not separately specified (*e.g.* smallwares).

Clothing and footwear: Includes leather tanning and fur dressing, hosiery and lace and textiles not separately specified.

Chemicals: chemicals; explosives; oils; greases, etc.; coke ovens.

Other manufactures: all other manufacturing industries; mining and quarrying not separately specified.

Farming: excludes the earnings of labour employed with hired machinery.

Transport, communications and public utilities: includes fishing.

Table 9. Private Income from Work and Property Before and After Tax.

It will be understood that in the case of mixed incomes the allocation of tax can only be arbitrary. Thus, if, for example, an individual's income is derived partly from wages and partly from interest-bearing securities, the tax payable depends partly on the size of his tax-free allowances and these are calculated with reference to his total income and not with reference to its separate component parts.

The allocation of tax used in compiling table 9 is given in more detail and for all the years since 1938 in the table that follows.

DIRECT TAXATION PAID IN RESPECT OF DIFFERENT TYPES OF INCOME AND PROPERTY

TABLE 35 — £ million

	1938	1939	1940	1941	1942	1943	1944	1945	1946
On income									
Rent of land and buildings—									
Income tax	59	65	83	97	112	111	113	118	116
Surtax	7	7	8	8	8	8	8	8	8
Interest and profits—									
Income tax (1)	208	224	303	408	399	553	622	636	664
Surtax	43	48	59	57	53	54	54	53	55
N.D.C., E.P.T.,(2) etc. ...	16	28	69	234	345	486	517	474	391
Salaries—									
Income tax	43	54	76	124	208	244	256	270	246
Surtax	9	10	12	12	12	12	12	12	12
Employees' national insurance contributions	4	4	5	7	7	7	7	7	9
Wages—									
Income tax	2	3	5	29	109	179	264	297	221
Surtax	—	—	—	—	—	—	—	—	—
Employees' national insurance contributions	51	52	56	61	65	64	63	62	79
Pay of Armed Forces—									
Income tax	1	1	2	6	20	23	24	32	21